ADIB (UK) LIMITED

REPORTS OF THE BOARD OF DIRECTORS AND
FINANCIAL STATEMENTS
Registered Number: 07327879

31 DECEMBER 2018

FINANCIAL STATEMENTS
Year ended 31 December 2018

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Year ended 31 December 2018

Directors

Brian Belcher (appointed 15 January 2018)	Chairman
Michael Robert Hanlon	
Abdulla Al Shehhi (appointed 27 March 2018)	
Bruno Martorano (resigned 15 January 2019)	Chief Executive Officer
Keith George McLeod	Chief Financial Officer

Company Secretary

Sheila Kaul

Registered Office

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26-28 Hammersmith Grove
London
W6 7HA

Bankers

Barclays Bank plc
128 Moorgate
London
EC2M 6SX

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

BOARD OF DIRECTORS REPORT
Year ended 31 December 2018

The Board of Directors present their report together with the audited financial statements of ADIB (UK) Limited (the 'Company' or the 'Bank') for the year ended 31 December 2018.

Principal activities

The activities of the Bank are conducted in accordance with Islamic Shari'a, which prohibits usury, and within the provisions of the Articles and Memorandum of Association. The Bank is an authorised banking institution incorporated in the UK, authorised by the Prudential Regulation Authority (PRA) and regulated by both the PRA and the Financial Conduct Authority (FCA). The Bank is a wholly owned subsidiary of Abu Dhabi Islamic Bank PJSC, Abu Dhabi, UAE.

The Bank provides banking services in London predominantly to ADIB Group priority, high net worth and corporate customers. The Bank seeks to be the preferred choice in the UK for these ADIB Group customers today. The Bank offers current accounts, accepts deposits, facilitates the transactional and payment requirements of these customers, and offers property financing to customers looking to invest in the UK property market.

Basis of preparation of financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The Bank's directors have made an assessment of the Banks's ability to continue as a going concern and are satisfied the Bank has the resources to continue in business for the foreseeable future and the Bank is supported by its parent financially. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Financial results

The financial statements for the year ended 31 December 2018 are shown on pages 19 to 64. The loss for the year is £2,140,074 (2017: loss of £3,308,212).

The Bank's risk management policies are set out in Note 29 to the financial statements.

Prohibited income

According to the Fatwa and Shari'a Supervisory Board "FSSB", the Bank is required to avoid any transaction or activity deemed to be not acceptable by Shari'a and to identify any income from such source and to set it aside in a separate account (charity account) to be disposed to charity by the Bank under the supervision of the FSSB. There has been no prohibited income earned during the year.

Charitable donations and political contribution

During the year the Bank did not make any charitable donations or political contributions.

Dividends

The Directors do not recommend the payment of a dividend (2017: £nil).

Organisation and governance

The Board of Directors has overall responsibility for the Bank, including approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values. The Board is also responsible for providing oversight of senior management.

The Directors who served on the Board of Directors and various Board Committees during the year are set out below together with those noted as appointed subsequently.

1.	Nuhad Saliba[1,2]	Board Member	(Resigned on 31 March 2018)
2.	David John Smith[1]	Board Member	(Resigned on 31 March 2018)
3.	Sarvesh Sarup[2]	Board Member	(deceased)
4.	Michael Robert Hanlon[1, 2]	Board Member	
5.	Keith George McLeod	Board Member	
6.	Bruno Martorano	Board Member	(Resigned on 15 January 2019))
7.	Brian Belcher [1, 2]	Board Member	(Appointed 15 January 2018)
8	Abdulla Al Shehhi [2]	Board Member	(Appointed 27 March 2018)

None of the directors had any beneficial interest in the share capital of the Bank or any other ADIB Group Company at any time during the year.

Key to Board Committees:

[1]Denotes member of Audit & Risk Committee
[2]Denotes member of Remuneration & Nomination Committee

Board meetings are held at least four times a year. The board has formed the following committees to set policy, review progress and to deal with specific and critical issues relevant to the committee's objectives. The committees and their responsibilities are:

Board Audit & Risk Committee

The Audit & Risk Committee (ARC) is appointed by the Board to act as both the Board's Risk Committee and Audit Committee as defined in the FCA Handbook combined view Senior Management Arrangements, Systems and Controls and in the PRA Statutory Audit Directive. The ARC has the responsibility to ensure that the Bank's operations are adequately supported by a comprehensive and proportionate risk management framework. It assists the Board in fulfilling its oversight responsibilities in respect of the following:

- The integrity of the Bank's financial statements and financial reporting processes
- The effectiveness of the Internal, External Audit functions
- The effectiveness of the Risk Management and Internal Control systems
- Compliance with the Bank's legal and regulatory requirements

Key responsibilities of the ARC include:

Financial Statements and Reporting

- Review the statutory financial statements and regulatory disclosures for compliance with all regulatory requirements and ensure appropriateness of the accounting policies
- Review the significant financial reporting issues and judgments made in connection with the preparation of the financial statements
- In particular, review any material changes in accounting policies, material amendments recommended by the auditors, any matters subject to management's judgment, and any other significant or unusual matters
- Review the clarity and completeness of disclosures in the financial statements and consider whether the disclosures made are in compliance with legal requirements
- Review with the External Auditor's findings including any major issues that arose during the course of the audit

Audit

- Ensure the establishment of a robust and comprehensive internal audit framework
- Review and recommend to the Board the appointment, evaluation and removal of internal and external auditors

- Review and approve the annual risk-based audit plans of both the internal and external auditors.
- Ensure that audit findings are acted upon by the management in a timely manner
- Ensure the independence, and review the effectiveness, of internal and external audit
- Where the internal audit function is outsourced, ensure that an appropriate agreement or SLA has been established and is monitored

Risk Management and Internal Control System

- Review and approve risk policies in accordance with the authority delegated by the Board
- Review the Bank's internal control systems and assess control effectiveness
- Review the Bank's aggregated risk profile in the context of its risk appetite
- Liaise with the Remuneration & Nomination Committee (RNC) on the Bank's remuneration framework as needed
- Review compliance with corporate governance standards by management through the periodic review of the minutes of management committees

Compliance

- Ensure that the Bank is compliant with all relevant laws and regulations and review the effectiveness of the Bank's compliance management framework
- Ensure that the Bank has adequate and effective AML, KYC and sanctions monitoring policies, procedures and processes in place
- Review the findings of any examinations by authorities or regulatory agencies and ensure timely management actions

The ARC is chaired by an Independent Non Executive Director and meets at least quarterly.

Remuneration & Nomination Committee (RNC)

The RNC is a Board-level committee with responsibility for nominating and recommending for the approval of the Board, additional or alternative Board members, Board-level Committee members and Senior Management appointments in the Bank.

It also has responsibility for considering and recommending to the Board an overall remuneration policy aligned to its long-term objectives and risk appetite. The RNC ensures that remuneration decisions compensate executives and employees fairly and responsibly. It also ensures that compensation policies are in line with the UK Remuneration Code which seeks to reinforce greater responsibility and accountability by strengthening the alignment of risk and reward and discouraging excessive risk taking.

Key responsibilities of the RNC are:

Strategic

- Consider and recommend to the Board an overall remuneration policy aligned to the Bank's business and risk strategies and risk appetite
- Ensure that the remuneration and benefits provided to senior management are reasonable and aligned to the Bank's performance
- Determine the design, eligibility and targets for any long term performance related pay schemes and review performance against these targets

Operational

- Determine the overall manpower requirements of the Bank
- Appoint, employ or retain such professional advisors as the committee may consider appropriate
- Ensure that conflicts of interest are identified and resolved in the determination of remuneration
- Satisfy itself as to the accuracy of performance measures that govern quantum of incentives
- Review HR issues, including employee retention, talent development, motivation and commitment and succession planning for senior management positions

Risk Management

- Liaise with the ARC and CRO on remuneration affairs in the broader context of risk management and Regulatory rules
- Ensure that risks arising from the Bank's remuneration policy are appropriately managed and remuneration structures and incentive pay-outs do not encourage excessive risk taking

Review

- Review all appraisals of the CEO and Senior Management and approve their compensation including bonuses
- Review and approve any non-standard compensation payments
- Review, at least annually, the remuneration policy to ensure that members of senior management are provided with appropriate incentives
- Review, on an annual basis, the policy for remuneration, benefits and incentives of all employees
- Ensure that remuneration levels are benchmarked to industry peers on a periodic basis

The RNC is chaired by a Non Executive Director and meets at least twice a year.

Directors' Liabilities

The Bank has indemnified all directors of the Bank against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force during the year.

Financial Risk Management & Exposures

The Bank's financial risk management and exposures are detailed in note 29 in the Financial Statements

Future Developments

The Bank believe that the its bespoke financing solutions, and personal banking offering will facilitate business growth, and that its client base will continue to view the UK as the investment destination of choice outside of the Middle East.

Going Concern

The Directors have reviewed the business activities and financial position of the Bank and have a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. In particular the Directors have assessed the Bank's five year business plan. In making this assessment the Directors have considered a wide range of information about the current and future condition of the Bank and including the strategic direction, activities and risks that affect the financial position. For these reasons the financial statements have been prepared on a going concern basis.

Disclosure of Information to the Auditors

The Directors who held office at the date of approval of this Directors' report confirm that so far as they are each aware there is no relevant audit information of which the Bank's auditors are unaware, and each director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

Auditors

Ernst & Young LLP (EY) were appointed as auditors during the prior period and will continue in office in accordance with Section 487 of the Companies Act 2006.

On behalf of the Board

Keith George McLeod
Acting Chief Executive Officer
17 April 2019
UK

Strategic Report

The Bank's strategy is to build a sustainable banking business in the London market that will serve these and other individuals and entities from the Middle East and North Africa through the delivery of a full banking service model including deposit and credit products to HNWI customers based in these countries. The success of the Bank will be built on providing superior customer service and treating customers fairly, both values enshrined in Abu Dhabi Islamic Bank PJSC's domestic franchise in the UAE.

The key risks currently faced by the Bank are credit and operating risk, these are mitigated by the strong risk management culture, and corporate governance structure which exist within the Bank. Shari'a non-compliance risk is another key risk that the Bank faces. This is the risk that arises from the failure to comply with the Shari'a rules and principles determined by the Fatwa and Shari'a Supervisory Board of the Bank. The Bank has in place robust procedures and controls to mitigate the incidence of losses attributed to Shari'a non-compliance the Bank is subject to Shari'a audits to ensure adherence to Shari'a principles laid out.

Cybersecurity is a key concern in the current environment. The ever evolving threats require an organization to develop the capabilities, processes and advanced tools and technologies to effectively detect and respond promptly. ADIB UK has developed and implemented risk-appropriate security controls to proactively maximise the protection of ADIB UK's environment from evolving threats and attacks being faced from inside and outside of the organisation.

Regulatory risk continues to be a key challenge; the Bank is committed to the highest standards of corporate governance and risk management, details of which are provided in the note 29 of this report.

During 2018, the Bank demonstrated its commitment to providing customers with bespoke financing solutions for their real estate investments, together with personal banking services from its prestigious One Hyde Park Branch. The Bank increased its financing assets customers during the year by 97%, the pipeline of new potential financing deals continues to be strong, reflecting the continuing appetite from the Middle East for UK Real Estate assets. The overall loss for the year of £2.1m (2017:£3.3m) reflects both the careful management of the Bank's operating expenses, and the full year revenue benefit of the financing assets booked in 2017. The Bank is still at an early stage of development, and does not believe that it is meaningful to disclose KPIs. The Bank retains the full support of ADIB Group.

In January 2019, Bruno Martorano resigned from ADIB UK, I have been appointed by the board as the Acting Chief Executive Officer whilst a permanent successor is sought.

There continues to be significant uncertainty about Brexit and the future direction for the UK Banking community. ADIB UK's client base derives the bulk of its wealth from the Middle East, and so is less directly impacted by Brexit uncertainty. The Bank continues to believe that Brexit and the weakening pound presents its HNWI Group customers with opportunities to invest in the UK market.

Given the Bank's strong liquidity and capital position, and experienced management team, the Board continues to believe that the Bank is well placed to deliver the exceptional client service our customers expect, and to facilitate the investment opportunities identified by our customers.

On behalf of the Board

Keith George McLeod
Acting Chief Executive Officer
17 April 2019
UK

STATEMENT OF DIRECTORS' RESPONSIBILITIES
Year ended 31 December 2018

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the independent auditors' report on page 8, is made by the directors to explain their responsibilities in relation to the preparation of the Director's Report, Strategic Report and Financial Statements.

The directors are responsible for preparing the Directors' Report, Strategic Report and the Financial Statements in accordance with applicable Law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and

- state that the Bank had complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time, the financial position of the Bank, and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason, the financial statements are prepared on a going concern basis.

INDEPENDENT AUDITOR's REPORT TO THE MEMBER OF ADIB (UK) LIMITED
Year ended 31 December 2018

Opinion
We have audited the financial statements of ADIB (UK) Limited (the "Bank") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, and the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 34, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- Give a true and fair view of the Banks's affairs as at 31 December 2018 and of its loss for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Risk of management override in respect of income from ijara and investment income from sukuk • Impairment of financing as a result of changes in credit quality or collateral valuation
Materiality	• Overall materiality of £0.35m which represents 1% of net assets.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of management override in respect of income from ijara and investment income from sukuk Investment income from sukuk: £773,542 (2017: £1,150,032) Income from ijara and other Islamic financing with customers: £4,307,102 (2017: £2,932,410) Refer to the accounting policies (note 4) and notes 6 and 7 of the financial statements. There is a risk of management override in respect of income from sukuk and ijara, due to manual elements of the process. Incorrect recording of terms of agreements could result in revenue being misstated or recorded in the incorrect accounting period.	Our approach focused on: • Obtaining an understanding of and testing that the key controls (input and calculation controls) around the revenue recognition process are designed and implemented effectively, with the assistance of EY IT audit professionals, where required; • Recalculating on a sample basis income recognised from sukuk and agreeing the inputs to the calculation to the underlying contracts and agreements; • Recalculating on a sample basis income from ijara and agreeing the inputs to the calculation to the underlying contracts and agreements; and • Performing testing of a sample of items either side of the year-end to ensure revenue is recognised in the correct period.	We concluded that income from ijara and investment income from sukuk were appropriately recorded. We also concluded that income has been recorded in the correct period in compliance with IFRS.
Impairment of financial assets in accordance with IFRS 9 as result of significant increase in credit risk or decrease in collateral values Ijara and other Islamic financing: £153,751,299 (2017: £77,904,633) Impairment: £3,095 (2017: £nil) Refer to the accounting policies (note 4) and note 15 of the financial statements. Impairment of financial assets requires significant judgement and estimates by management and external valuers (for collateral valuation). There is a risk that significant increases in credit risk might not have been appropriately considered by the Bank, or there could be significant decreases in collateral valuations resulting in higher LGDs, or provisions for such events not appropriately estimated, which could result in the overstatement of the net financing balance.	Our approach focused on: • Obtaining an understanding of and testing the effectiveness of key controls related to onboarding of new financing deals and monitoring of ijara and islamic financing facilities, including, among others, controls around facility booking, ageing and credit monitoring; • Reading accounting interpretations and assessing compliance with IFRS 9, using EY Specialists; • Auditing opening balance adjustments booked in respect of IFRS 9; • For all financing, evaluating the credit files, financial information of customers, early warning indicators, collateral arrangements and valuation, as well as publicly available information that we judge to be relevant, in order to assess whether there has been a significant increase in credit risk; • For all financing, testing that financing payments are made in line with credit agreements by inspecting bank	As a result of the procedures performed we are satisfied that management's judgements are reasonable and that there is no evidence of material misstatement in the carrying amount of financing.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	statements; • For all financing, obtaining and checking the security documents to assess the existence of collateral; • For all financing, obtaining latest valuation reports prepared by management’s specialists in relation to collateral held, assessing the reasonableness of methodologies applied in the valuations, and validating that financing to value ratios support the existing carrying values of the financing; and • Agreeing the quantitative disclosures to source data and assessing the consistency of qualitative disclosures with accounting policies, model documentation and risk governance papers.	

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Bank. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Bank and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team. This team was supported by (i) IT audit professionals in EY Abu Dhabi in respect of the audit work on IT systems and (ii) EY Abu Dhabi team for the audit of certain financial statement line items which are managed at Head Office level.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Bank to be £0.35 million (2017: £0.75 million), which is 1% (2017: 2%) of net assets. We determined our materiality based on net assets because the Bank has not been profitable historically. Also, our expectation is that the main users of the financial statements, such as the Prudential Regulation Authority and the ultimate controlling party, view net assets as a key consideration. In the prior year, 2% of net assets was used as the measurement basis for the Bank. However, this year we have reduced it to 1% in order to align the materiality level with the similar size banks.

INDEPENDENT AUDITOR’s REPORT TO THE MEMBER OF ADIB (UK) LIMITED
Year ended 31 December 2018

During the course of our audit, we reassessed initial materiality and as the actual net assets of the Bank did not differ significantly, we retained materiality at £0.35 million.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Bank’s overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £0.26m (2017: £0.56m). We have set performance materiality at this percentage after assessing the Bank’s overall control environment and prior period’s misstatements.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.02m (2017: £0.04m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 7, other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information; we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

- In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors’ report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors’ report.

INDEPENDENT AUDITOR's REPORT TO THE MEMBER OF ADIB (UK) LIMITED
Year ended 31 December 2018

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant were the regulations, license conditions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We understood how the Bank complies with these legal and regulatory frameworks by making enquiries of management and those responsible for legal and compliance matters. We also: reviewed correspondence between the Bank and UK regulatory bodies; reviewed minutes of the Board and Audit & Risk Committee; and gained an understanding of the Bank's approach to governance, demonstrated by the Board's approval of the Bank's governance framework and the Board's review of the Bank's risk management framework ('RMF') and internal control processes.

- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Bank has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved inquiries with senior management, and focused testing, as referred in the Key Audit Matters section above.

INDEPENDENT AUDITOR's REPORT TO THE MEMBER OF ADIB (UK) LIMITED
Year ended 31 December 2018

- The Bank operates in the banking industry which is a highly regulated environment. As such the Senior statutory auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Board of Directors on 28 June 2012 to audit the financial statements for the year ending 31 December 2012 and subsequent financial periods.

- The period of total uninterrupted engagement including previous renewals and reappointments is 7 years, covering the years ending 31 December 2012 to 31 December 2018.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting the audit.

- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Helen Joseph *(Senior statutory auditor)*
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
17 April 2019

Notes:
1. The maintenance and integrity of the **ADIB (UK) Limited's** web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

	Notes	***31-Dec 2018 GBP***	*31-Dec 2017 GBP*
INCOME			
Income from murabaha and wakala with financial institutions	5	**151,967**	10,812
Investment income from sukuk	6	**773,542**	1,150,302
Income from ijara and other Islamic financing with customers	7	**4,307,102**	2,932,410
Fees and commission income, net	8	**455,989**	203,509
Loss on foreign exchange		**(7,145)**	(449,119)
Fair value (loss)/gain on forward wa'ad foreign exchange undertakings	18	**(430,007)**	22,608
TOTAL OPERATING INCOME		**5,251,448**	**3,870,522**
EXPENSES			
Employees' costs	9	**(2,673,467)**	(3,109,517)
General and administrative expenses	10	**(2,832,163)**	(2,861,462)
Depreciation	20	**(551,638)**	(514,200)
TOTAL OPERATING EXPENSES		**(6,057,269)**	**(6,485,179)**
LOSS FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS		**(805,821)**	(2,614,657)
Provisions for Impairment on financial assets		**(16,314)**	-
Distribution to depositors	11	**(1,317,939)**	(693,555)
Loss before taxation		**(2,140,074)**	**(3,308,212)**
Corporation tax credit	12	-	-
Loss for the year after taxation		**(2,140,074)**	(3,308,212)

The attached notes 1 to 34 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
OTHER COMPREHENSIVE INCOME		
(Items that will be subsequently reclassified to Profit & Loss)		
Investments in sukuk at fair value through other comprehensive income:		
Realised (loss)/profit on sale of investment in Sukuk	**(33,553)**	-
Net loss on valuation of investments in sukuk at fair value through other comprehensive income	**(496,195)**	-
Net gains/(losses) on financial investments at fair value through other comprehensive income	**(529,748)**	-
Available-for-sale financial assets:		
Realised loss on sale of AFS	-	124,921
Net change in fair value during the year	-	(334,487)
Net gains/(losses) on available-for-sale financial assets	-	(209,566)
Total comprehensive loss for the year	**(2,669,822)**	**(3,517,778)**

The attached notes 1 to 34 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	***31-Dec 2018 GBP***	*31-Dec 2017 GBP*
ASSETS			
Cash	13	**282,801**	214,067
Balances with Islamic banks and other financial institutions	14	**26,519,514**	15,447,493
Murabaha and wakala deposits with financial institutions		**-**	-
Ijara and other Islamic financing	15	**153,751,299**	77,915,755
Investments in sukuk at fair value through other comprehensive income	16	**41,379,925**	-
Investments in sukuk – available-for-sale	16	**-**	52,752,834
Investments in sukuk held to maturity	17	**-**	739,963
Shari'a alternative for derivative financial instruments	18	**-**	297,280
Other assets	19	**1,044,297**	957,254
Property and equipment	20	**451,909**	970,265
TOTAL ASSET		**223,429,745**	**149,294,911**
LIABILITIES			
Due to financial institutions	21	**144,834,036**	79,045,497
Depositors' accounts	22	**41,629,251**	30,786,941
Shari'a alternative for derivative financial instruments	20	**6,462**	-
Other liabilities	23	**1,665,674**	1,498,329
TOTAL LIABILITIES		**188,135,423**	**111,330,767**
EQUITY			
Share capital	24	**58,041,000**	58,041,000
Accumulated losses		**(22,127,944)**	(19,987,870)
Cumulative changes in fair value through other comprehensive income of Investments in sukuk		**(618,734)**	-
Cumulative changes in fair value of Available for Sale Investments in sukuk		**-**	(88,986)
Total equity		**35,294,322**	37,964,144
TOTAL LIABILITIES AND EQUITY		**223,429,745**	**149,294,911**

Michael Robert Hanlon
Director
17 April 2019

Keith George Mcleod
Chief Financial Officer
17 April 2019

The attached notes 1 to 34 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

As at 31 December 2018

	Share Capital GBP	*Accumulated losses* GBP	*Fair Value Reserve on AFS investments in sukuk* GBP	*Fair Value reserve on investments in sukuk through OCI* GBP	*Total* GBP
Balance at 1 January 2017	58,041,000	(16,679,658)	120,580	-	41,481,922
Share capital issued	-	-	-	-	-
Loss for the year after taxation	-	(3,308,212)	-	-	(3,308,212)
Realised gain on sale of investments in sukuk	-	-	124,921	-	124,921
Cumulative changes in fair value of investments in sukuk	-	-	(334,487)	-	(334,487)
Balance at 1 January 2018	**58,041,000**	**(19,987,870)**	**(88,986)**	**-**	**37,964,144**
Share capital issued	-	-	-	-	-
Loss for the year after taxation	-	(2,140,074)	-	-	(2,140,074)
Realised (loss)/profit on sale of investments in sukuk	-	-	-	(33,553)	(33,553)
Transfer of Fair value Reserve on AFS investments in sukuk			88,986	(88,986)	-
Net change in Fair Value during the year	-	-	-	(496,195)	(496,195)
Balance at 31 December 2018	**58,041,000**	**(22,127,944)**	**-**	**(618,734)**	**35,294,322**

The attached notes 1 to 34 form part of these financial statements.

STATEMENT OF CASH FLOWS
31 December 2018

	Notes	Year ended 31 December 2018 GBP	Year ended 31 December 2017 GBP
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year before taxation		**(2,140,074)**	(3,308,212)
Adjustments for:			
Depreciation on property and equipment	20	**551,638**	514,200
Provisions for Impairment on financial assets		**16,314**	-
Foreign exchange (loss)/ gain on investments		**(994,833)**	3,540,109
Operating (loss)/gain before changes in operating assets and liabilities		**(2,566,955)**	746,097
(Increase) in Ijara and other Islamic financing		**(75,838,656)**	(6,918,517)
Decrease/(increase) in Shari'a alternative for derivative financial instruments		**303,742**	(110,867)
(Decrease) in other assets		**(92,992)**	(374,004)
Increase in due to financial institutions		**65,788,539**	2,715,604
Increase/(decrease) in depositors' accounts		**10,842,310**	(6,467,291)
Increase/(decrease) in other liabilities		**167,345**	(202,909)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		**(1,396,668)**	(10,611,887)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net disposals/(additions) of investments in sukuk at fair value OCI		**11,830,741**	
Net disposals/(additions) of investments in sukuk at fair value AFS		**-**	(431,034)
Net disposals of investments in sukuk at amortised cost	17	**739,963**	
Purchase of property and equipment		**(33,282)**	(123,667)
Net cash used in investing activities		**12,537,422**	(554,701)
INCREASE/DECREASE IN CASH & CASH EQUIVALENTS		**11,140,755**	(11,166,588)
CASH AND CASH EQUIVALENTS START OF YEAR		**15,661,560**	26,828,148
CASH AND CASH EQUIVALENTS END OF YEAR		**26,802,315**	15,661,560

The attached notes 1 to 34 form part of these financial statements

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

ADIB (UK) Limited ("the Bank") is an authorised banking institution incorporated in the UK and regulated by the PRA and FCA. The Bank is a wholly owned subsidiary of Abu Dhabi Islamic Bank PJSC. The Bank received its authorisation in April 2012 and is presently, concentrating on building its retail banking business.

The Bank carries out banking services, activities through various Islamic instruments such as Murabaha, Wakala, Sukuk, Ijara etc. The activities of the Bank are conducted in accordance with Islamic Shari'a, as determined by the Fatwa and Shari'a Supervisory Board of the Bank, which prohibits usury, and within the provisions of the Articles and Memorandum of Association.

The registered office of the Bank is at 9th Floor, 26-28 Hammersmith Grove, London W6 7HA.

The financial statements of the Bank were authorised for issue by the Board of Directors on 27th February 2019.

2 DEFINITIONS

The following terms are used in the financial statements with the meanings specified:

Mud araba

A contract between the Bank and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible of all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

Murabaha

A sale contract, in which the Bank sells to a customer a physical asset, goods, or shares already owned and possessed (either physically or constructively) at a selling price consisting of the purchase cost plus a profit mark-up.

Wakala

A contract between the Bank and a customer whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.

Sukuk

Certificates which are equal in value and represent common shares in the ownership of a specific physical asset (leased or to be leased either existing or to be constructed in future), or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

Ijara and other Islamic financing

A lease contract whereby the Bank (the Lessor) leases to a customer (the Lessee) a service or the usufruct of an owned or rented physical asset that either exists currently or will be constructed in future (forward lease) for a specific period of time at specific rental installments. The lease contract could be ended by transferring the ownership of a leased physical asset through an independent mode to the lessee.

3 BASIS OF PREPARATION

3.1 (a) Statement of compliance
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

3.1 (b) Accounting conventions
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS and have been prepared under the historical cost convention, except for financial assets - investments in sukuk at fair value through other comprehensive income and Shari'a compliant alternatives of derivative financial instruments wa'ad which have been measured at fair value.

The financial statements have been presented in Great Britain Pounds (GBP), which is the functional currency of the Bank.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all the years presented in these financial statements.

3.2 New and amended standards not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases
Effective from 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

Key requirements
The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees are required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from current accounting under IAS 17. Lessors continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Bank is currently assessing the impact on the financial statements.

3.3 New and amended standards adopted during the year

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is

not compulsory. For hedge accounting under IFRS 9, the requirements are generally applied prospectively, with some limited exceptions.
The Bank adopted the new standard on the 1 January 2018 and is not required to re-state comparative information. Overall, there has been no significant impact on the Bank's statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. There has been no material increase in the loss allowance resulting in a negative impact on equity. In addition, the Bank has implemented changes in classification of certain financial instruments.

(a) Classification and measurement
There has been no significant impact on the balance sheet or equity on applying the classification and measurement requirements of IFRS 9. The Bank continues measuring at fair value all financial assets currently held at fair value. Quoted sukuk currently held as available-for-sale (AFS) with gains and losses recorded in OCI are measured at fair value through other comprehensive income (FVOCI), as the Bank expects not only to hold the assets to collect contractual cashflows, but also to sell a significant amount on a relatively frequent basis.

Classification

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Bank are further analysed as:
· Customer financing;
· Balances and wakala deposits with Islamic banks and other financial institutions;
· Murabaha and mudaraba with financial institutions;
· Investment in sukuk;
· Investment in equity instruments;
· Trade and other receivables; and
· Sharia compliant alternatives of derivatives.

The Bank's customer financing comprise the following:
· Murabaha and other Islamic financing; and
· Ijara financing.

Effective 1 January 2018, the Bank adopted classification and measurement principles of IFRS 9 'Financial Instruments'.

Financial assets are classified in their entirety on the basis of the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

Financial assets at amortised cost
Balances and wakala deposits with Islamic banks and other financial institutions, Murabaha and mudaraba with financial institutions, Acceptances, Murahaba and other Islamic financing and Ijara financing i.e. customer financing and investment in sukuk, are measured at amortised cost, if both the following conditions are met:
· the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
· the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Financial assets at fair value through profit or loss ("FVTPL")
Investments in equity instruments are classified as FVTPL.

Other financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Bank. A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

Financial assets are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financial assets that are designated as FVTPL on initial recognition is not allowed.

Financial assets at fair value through other comprehensive income ("FVTOCI")
At initial recognition, the Bank can make an irrevocable election (on instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI.

A financial asset is FVTPL if:
· it has been acquired principally for the purpose of selling in the near term;
· on initial recognition it is part of identified financial instrument that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
· it is a Shari'a compliant alternatives of derivative financial instruments and not designated and effective as a hedging instrument or a financial guarantee.

Measurement

Financial assets or financial liabilities carried at amortised cost
Financial assets at amortised cost including customer financing and investment in sukuk are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

Balances and deposits with banks and other financial institutions, Murabaha and Mudaraba with financial institutions, Murabaha, Ijara, Mudaraba and certain other Islamic financing are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Bank provides funds directly to a customer with no intention of trading the receivable. Financial liabilities are liabilities where the Bank has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavorable to the Bank.

Balances and wakala deposits with Islamic banks and other financial institutions are stated at amortised cost less amounts written off and provision for impairment, if any.

Murabaha and mudaraba with financial institutions are stated at amortised cost (which excludes deferred income or expected profits) less provisions for impairment.

Islamic financing consist of murabaha receivables, mudaraba, Istisna'a, Islamic covered cards (murabaha based) and other Islamic financing.

Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Other Islamic financing are stated at amortised cost (which excludes deferred income) less any provisions for impairment.

The Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included within 'investment income' in the consolidated income statement.

Financial assets at fair value through other comprehensive income ("FVTOCI")

Investments in equity instruments are initially measured at fair value plus transaction costs. Subsequently they are measured at fair value with gains and losses arising from changes in fair value recognised in the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity.

Where the assets are disposed of, except for sukuk measured at FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. Financial assets measured at FVTOCI are not required to be tested for impairment.

For sukuk measured at FVTOCI which are disposed of, the cumulative gain or loss previously recognised in the consolidated statement of other comprehensive income is reclassified from equity to consolidated income statement.

For investments quoted in active market, fair value is determined by reference to quoted market prices.

No impairment losses were recognised in profit or loss during prior periods for these investments. The Bank has applied the option to present fair value changes in OCI. The Bank has concluded that there is currently no material impact from implementing IFRS 9.

Financing transactions are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and profit. The Bank analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments was not required.

(b) Impairment of financial assets
The standard introduces a new single model for the measurement of impairment losses on all financial assets including financing and sukuk measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39.

Impairment assessment:
The Bank assesses whether financial assets carried at amortised cost and carried at fair value through other comprehensive income (FVTOCI) are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the finance customer or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a financing by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the finance customer will enter bankruptcy or other financial reorganization or;
- The disappearance of an active market for a security because of financial difficulties.

Measurement of Expected Credit Losses (ECL)
The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition. 12-month ECL are the portion of life time ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

ECL is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting at the initial effective profit rate. The Bank has developed a range of models to estimate these parameters. For the portfolios where sufficient historical data was available, the Bank developed a statistical model and for other portfolios judgmental models were developed.

Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months and Loss Given Default (LGD).

Stage 2: Under Stage 2, where there has been a SICR since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the lifetime ECL will be recorded which is computed using lifetime PD, LGD and Exposure at Default (EAD) measures. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3: Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The Bank has determined that there was a requirement to recognise Stage 1 ECLs of £16,314 in 2018 following implementation of the new standard (impairment provisions 2017 £ nil). There is a requirement to recognize any Stage 2 or Stage 3 impaired financing but there were no items that met the stage 2 and 3 criteria during the year and at the year end.

Write-off
Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank has exhausted all legal and remedial efforts to recover from the customers.
The Bank does not have any write offs.

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash or real estate. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, to the extent it is possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data such as market transactions, rental yields and audited financial statements.

(c) Hedge accounting
The Bank does not currently recognise any transactions for hedge accounting purposes.

3.4 Transition disclosures

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

		£	£	£	£	
	IAS 39					IFRS 9
Financial assets	Category	Amount	Re-classification	Re-measurement ECL	Amount	Category
Cash	F&R	214,067	-	-	214,067	AC
Balances with Islamic banks and other financial institutions	F&R	15,447,493	-	-	15,447,493	AC
Murabaha and wakala deposits with financial institutions		-	-	-	-	
Ijara and other Islamic financing	F&R	77,915,755	-	-	77,915,755	AC
Investments in sukuk at FVOCI		-	-	-	-	
Investments in sukuk – AFS	AFS	52,752,834	-	-	52,752,834	FVOCI
Investment securities HTM	HTM	739,963	-	-	739,963	AC
Shari'a alternative for derivative financial instruments	FVPL	297,280	-	-	297,280	FVPL
Other assets		957,254	-	-	957,254	
Property and equipment		970,265	-	-	970,265	
Total assets		**149,294,911**			**149,294,911**	

Financial assets				
Due to financial institutions	79,045,497	-	-	79,045,497
Depositors' accounts	30,786,941	-	-	30,786,941
Other liabilities	1,498,329	-	-	1,498,329
TOTAL LIABILITIES	**111,330,767**			**111,330,767**

F&R – Financing and Receivables
FVOCI – Fair value through other comprehensive income
AC- amortised cost
AFS- available for sale
HTM – held to maturity
FVPL- fair value through profit and loss

During the year, there has been a transfer of fair value reserve on AFS investments in Sukuk of £88,986. It has now been transferred to Fair Value reserve on investments in sukuk through OCI.

IFRS 15 Revenue from contracts with customers
IFRS 15, Revenue from contracts with customers outlines the principles an entity must apply to measure and recognise revenue. IFRS 15 was effective for annual periods beginning on or after 1 January 2018. The standard requires an entity to recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The Bank has assessed the effect of IFRS 15 during the year and has concluded that there was no material impact on the measurement or recognition of revenue.

3.5 Significant estimates and judgments

The preparation of the financial statements in conformity with the International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

Estimates and judgments are currently evaluated and are based on historical experience and other factors. In order to reduce the element of subjectivity, the Bank has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

Classification and measurement of financial assets
These are measured in accordance with the Bank's policy adopted under IFRS 9 set out under Section 3.3(a). The classification and measurement of the financial assets depend on management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Bank's investments in securities are appropriately classified and measured.

Impairment losses on financing assets and equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
These are measured in accordance with the Bank's policy adopted under IFRS 9 set out under Section 3.3(b)

Fair value of financial instruments
The fair values of financial assets recorded in the statement of financial position are derived from active markets.

The determination of fair value for financial assets and liabilities for which there is no observable market price may require the use of valuation techniques, based on variables that may include data not directly from observable markets. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market focus, pricing assumptions and other risks affecting the specific instrument.

Ijara and other Islamic financing
The Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

Revenue recognition
Murabaha
Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding using the effective yield method.

Wakala
Profit and cost are recognised in the Statement of Comprehensive Income throughout the period of the contract using the effective profit share basis.

Sukuk
Coupon payments on sukuk are accounted for on a time apportioned basis over the term of the sukuk using the effective yield method.

Ijara
Ijara income is recognised on a time apportioned basis over the lease term.

Fee and commission income
Fee and commission income is amortised over the life of the transaction. Upfront fees are amortised over the life of the transaction.

Profit distribution
Profit distributions are recognised in the Statement of Comprehensive Income throughout the period of the contract using the 'effective profit share' basis for Wakala and Ijara contracts.

Costs of getting financing
Costs of getting financing are expensed and are recorded in the period in which they are incurred and reported in Notes 21 and 22.

Financial instruments

(i) Classification
The Bank classifies its financial instruments in the following categories under IFRS 9:

Financial assets at amortised cost
Balances with Islamic banks and other financial institutions, murabaha and wakala deposits with financial institutions, Ijara and other Islamic financing are stated at amortised cost less amounts written off and expected credit loss (ECL), if any.

Financial assets at fair value through other comprehensive income
Financial assets are initially recognised at fair value. Subsequent to initial measurement, the fair value gain or loss on these assets is reported into the Statement of Changes in Equity. On sale or impairment of the asset, the cumulative gain or loss previously recognised in the Statement of Changes in Equity is reclassified within the Statement of Comprehensive Income.

(ii) Recognition
The Bank initially recognises financial assets on the date at which the Bank becomes a party to the contractual provisions of the instrument.

SIGNIFICANT ACCOUNTING POLICIES continued

A financial liability is recognised on the date the Bank becomes a party to the contractual provisions of the instruments.

(iii) *De-recognition*
A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset. A financial liability is de-recognised when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

(vi) Measurement
Financial assets and liabilities are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities.

All financial assets or liabilities at amortised cost are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity (Other comprehensive income) in the cumulative change in the fair value of financial assets. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in other operating income.

(v) Offsetting of financial instruments
Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

(vi) Impairment of financial assets
This is measured in accordance with the Bank's policies under IFRS 9 set out under Section 3.3(b). IAS 39 policy was provided in prior year financial statements.

(vii) Income tax
Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the taxable income for the year and on the basis of the tax laws enacted or substantively enacted at 31 December 2018.

IAS 12 requires a mechanistic approach to the calculation of deferred tax, deferred tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by 31 December 2018 and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Provisions
Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment. The rates of depreciation are based upon the following estimated useful lives:

• Furniture and leasehold improvements	7 years
• Computer and office equipment	4 years

The carrying values of properties and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such conditions exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Any subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the Statement of Comprehensive Income as the expense is incurred.

Settlement date accounting

All "regular way'' purchase and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to the counterparty. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. There was no settlement balances held at the year end.

Due to financial institution
Investment deposits represent profit bearing wakala placements of financial institutions with the Bank and carried at amortised cost.

Customers' deposits
Customers' deposits are carried at amortised cost.

Lease payments
Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Shari'a alternative for derivative financial instruments
The Bank enters into Shari'a compliant alternatives of derivative financial instruments to manage the exposure to currency risks, including unilateral promise which represents Shari'a compliant alternatives of swap. Those financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shari'a compliant alternatives of derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

Employees' pension
Since auto-enrolment obligations were fulfilled in late 2017, the Bank has operated a defined contribution scheme via NEST. The Bank makes an employer contribution of 8.33% for each employee with a minimum of 6% going into the NEST scheme to meet current auto-enrolment obligations. Employees can elect to receive the additional 2.33% as an additional gross payment and can also elect to have their pension contribution paid into their own pension scheme. The cost is recognised within personnel expenses in the profit and loss account. The Bank has no other obligation once the contributions have been paid.

Cash and cash equivalents
Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

SIGNIFICANT ACCOUNTING POLICIES continued

Other assets
Trade and other assets are stated at their nominal amount less impairment losses.

Foreign currencies
The Bank's financial statements are presented in GBP, which is the Bank's functional currency. That is the currency of the primary economic environment in which the Bank operates. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the Statement of Comprehensive Income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Segment reporting
The Bank has presented the segment information in respect of its business and geographical segments in the same way as it is presented internally to management.

5 INCOME FROM MURABAHA AND WAKALA WITH FINANCIAL INSTITUTIONS

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Income from wakala deposits with financial institutions	**16,629**	6,714
Income from international murabaha	**135,338**	4,098
	151,967	10,812

6 INVESTMENT INCOME FROM INVESTMENTS IN SUKUK

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Investment income on sukuk	**773,542**	1,150,302
	773,542	1,150,302

7 INCOME FROM IJARA AND OTHER ISLAMIC FINANCING WITH CUSTOMER

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Ijara and other Islamic financing	**4,307,102**	2,932,410
	4,307,102	2,932,410

8 FEES AND COMMISSION INCOME, NET

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Fees and commission income		
Fees and commission income on cards	**62,106**	57,635
Fees and commission income related to ijara and other Islamic financing	**52,777**	42,787
Account maintenance fees	**12,835**	13,604
Fees and commission - Others	**18,698**	178,480
Other income	**365,054**	-
Total fees and commission income	**511,471**	292,506
Fees and commission expenses		
Card related fees and commission expenses	**(42,729)**	(45,778)
Other fees and commission expenses	**(12,754)**	(43,219)
Total fees and commission expenses	**(55,482)**	(88,997)
Fees and commission income, net	**455,989**	203,509

9 EMPLOYEES' COSTS

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Salaries and wages (including directors)	**1,955,122**	2,041,024
Social security costs	**150,380**	322,892
Other staff expenses	**567,965**	745,601
	2,673,467	3,109,517

The Bank paid £150,380 to staff in 2018 as a contribution towards private personal pensions.

The following table summarises the number of employees (including directors) within the Bank:

	31-Dec 2018 Number	*31-Dec 2017 Number*
Average for the year - management	**4**	4
Average for the year - non management	**19**	19

	31-Dec	*31-Dec*
	2018	*2017*
9.1 Directors' emoluments	**GBP**	*GBP*
Directors' remuneration	**615,362**	750,708

The aggregate of remuneration of the highest paid director was £283,084 (2017: £337,428) and Bank pension contributions of £23,441 (2017: £14,610) were made on his behalf.

The remuneration of some directors is included in the accounts of Abu Dhabi Islamic Bank PJSC or fellow subsidiaries of the holding company. The Bank does not pay for their services as a director of the Bank. It is estimated that the remuneration for their services to the Bank in the year totaled £30,000 (2017: £30,000).

10 GENERAL AND ADMINISTRATIVE EXPENSES

	31-Dec	*31-Dec*
	2018	*2017*
	GBP	*GBP*
Legal and professional expenses	**708,876**	605,682
Operating lease expenses	**1,026,990**	1,034,692
Premises expenses	**484,468**	401,569
Communication expenses	**9,588**	22,983
Hardware and software expenses	**532,383**	520,283
Other expenses	**69,858**	276,253
	2,832,163	2,861,462

Included within legal and professional expenses are fees paid to the auditors categorised as follows:

	31-Dec	*31-Dec*
	2018	*2078*
	GBP	*GBP*
Auditors’ remuneration	**31,500**	31,000
CASS auditor’s remuneration	**5,775**	5,775
	37,275	36,775

11 DISTRIBUTION TO DEPOSITORS

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Wakala deposits of banks	**1,284,007**	679,303
Investment accounts	**33,932**	14,252
	1,317,939	693,555

12 TAXATION

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Current tax:		
United Kingdom Corporation tax on profit for the year	-	-
Deferred tax:	-	-
Total tax charge/(credit) for the year	-	-
Factors affecting the tax charge for the year		
The tax assessed for the year applies the standard rate of corporation tax in the UK for the period of 19% (2017 – 19.25%).		
Loss on ordinary activities before tax	**(2,140,074)**	(3,308,212)
Tax losses on ordinary activities GBP 2,140,074 multiplied by the standard rate of corporation tax in the UK of 19.00% (2017 – 19.25%)	**(406,614)**	(636,831)
Effects of:		
Expenses not deductible for tax	**40,265**	38,515
Change in tax rates	**-**	6,988
Deferred tax not recognised	**366,349**	591,328
Total tax charge/(credit) for the year	-	-
Recognised deferred tax asset/(liability) (Net)		
Transitional adjustment	**-**	(6,575)
AFS investments	**-**	-
Tax Losses	**-**	6,575
	-	-
Fixed Assets	**1,671,569**	1,336,833
Unrecognised deferred tax asset		
AFS investments		88,986
Financial investments at fair value through OCI	**618,734**	
Tax Losses	**18,165,696**	16,738,046

	20,455,998	**18,163,865**

TAXATION continued

Reduction in UK corporation tax rate

The UK Government enacted legislation to reduce the rate of UK corporation tax to 19% from 1 April 2017. The corporation tax rate will further fall to 17% from 1 April 2020 and this was enacted through Finance Bill 2016 on 15 September 2016.

Bank loss restriction
On 1 April 2015, the UK Government introduced legislation in the Finance (No. 2) Act 2015, which restricts the proportion of banks' annual taxable profit that can be offset by certain carried forward tax losses. The restriction applies to relevant tax losses arising prior to this date. Tax losses arising in the first 5 years of the bank commencing a banking activity are not included within the restriction. A further restriction to 25% on the amount of taxable profits that can be relieved by brought forward losses was enacted on 15 September 2016 through Finance Act 2016 and took effect from 1 April 2016. There is no impact of this legislation on the tax balances as at 31 December 2017.

Unrecognised deferred tax assets
There is a gross unrecognised deferred tax asset of £20,455,998 (2017: £18,163,865) relating to unrelieved tax losses and temporary differences. This asset has not been recognised due to the uncertainty of the timing of the future reversal of these temporary differences and utilisation of tax losses.

13 CASH

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Cash on hand	**282,801**	214,067

The distribution of the cash holdings by geographic region is as follows:

UK	**282,801**	214,067

14 BALANCES WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Current accounts	**26,519,952**	15,447,493
Provisions for Impairment on financial assets	**(438)**	
	26,519,514	15,447,493

The Bank does not earn profits on current accounts with banks and financial institutions. Of the balances above £6,529,612 was placed with Abu Dhabi Islamic Bank PJSC. In accordance with Shari'a principles deposits are invested only with Islamic financial institutions.

The distribution of the balances with Islamic banks and other financial institutions by geographic region is as follows:

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
UAE	**6,529,612**	2,634,691
UK	**17,231,983**	9,001,827
US	**2,757,919**	3,810,975
	26,519,514	15,447,493

15 IJARA AND OTHER ISLAMIC FINANCING

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Ijara	**106,684,941**	77,904,633
Murabaha	**47,059,137**	-
Others	**10,333**	11,122
Provisions for Impairment on financial assets	**(3,112)**	-
	153,751,299	77,915,755

The distribution of Ijara and other Islamic financing by geographic region is as follows:

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
UAE	**14,957,253**	4,972,500
UK	**138,797,158**	72,943,255
Provisions for Impairment on financial assets	**(3,112)**	-
	153,751,299	77,915,755

16 INVESTMENTS IN SUKUK AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

The analysis of the Bank's investments held as FVOCI instruments is as follows:

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Investments in sukuk carried at fair value:		
At 1 January	**52,752,834**	56,000,378
Additions during the year	**2,881,054**	17,991,969
Disposals and matured investments during the year	**(14,719,048)**	(17,560,935)
Foreign exchange (loss)	**1,002,086**	(3,469,012)
(Decrease) in fair value	**(529,748)**	(209,566)
Provisions for Impairment on financial assets	**(7,253)**	-
At 31 December	**41,379,925**	52,752,834

The distribution of investments in sukuk at fair value by geographic region is as follows:

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Other Middle East	**5,311,586**	5,174,696
UAE	**13,785,199**	17,517,839
UK	**19,949,818**	20,458,600
Far East	**2,333,322**	9,601,699
	41,379,925	52,752,834

17 INVESTMENTS IN SUKUK AT AMORTISED COST

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Investments in sukuk held to maturity:		
At 1 January	-	811,061
Additions during the year	-	-
Foreign exchange (loss) on investment	-	(71,098)
At 31 December	-	739,963

The distribution of investments in sukuk at amortised cost by geographic region is as follows:

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
UAE	-	739,963

18 SHARI'A ALTERNATIVE FOR DERIVATIVE FINANCIAL INSTRUMENTS

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Fair value (loss)/gain of outstanding forward (wa'ad) foreign exchange undertakings	**(6,462)**	297,280
Notional amount by term to maturity less than 3 months	**23,592,033**	34,718,714

The Bank entered into forward (wa'ad) foreign exchange undertakings in the year to manage its foreign currency exposures. The movement in the fair value of forward (wa'ad) foreign exchange undertakings is included in the Statement of Comprehensive Income. There was a swap cost for the year to date of £430,007 (2017: gain £22,608).

19 OTHER ASSETS

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
VAT Receivable	-	61,435
Prepaid expenses	**398,806**	438,511
Income receivable	**399,943**	457,308
Other assets	**245,548**	-
	1,044,297	957,254

20 PROPERTY AND EQUIPMENT

	Furniture & leasehold improvements	Computer & office equipment	Assets Under Construction	Total
	GBP	GBP	GBP	GBP
2018				
Cost				
At 1 January 2018	3,034,914	1,469,621	34,114	4,538,649
Additions during the year	5,669	27,631	-	33,282
Transfers	-	34,114	(34,114)	-
At 31 December 2018	3,040,583	1,531,348	-	4,571,931
Depreciation				
At 1 January 2018	2,339,173	1,229,211	-	3,568,384
Charge in the year	433,761	117,877	-	551,638
At 31 December 2018	2,772,934	1,347,066	-	4,120,022
Net book value				
At 31 December 2018	**267,649**	**184,260**	**-**	**451,909**

	Furniture & leasehold improvements	Computer & office equipment	Assets Under Construction	Total
	GBP	GBP	GBP	GBP
2017				
Cost				
At 1 January 2017	3,016,286	1,306,649	92,046	4,414,981
Additions during the year	18,628	105,040	-	123,668
Transfers	-	57,932	(57,932)	-
At 31 December 2017	3,034,914	1,469,621	34,114	4,538,649
Depreciation				
At 1 January 2017	1,906,269	1,147,915	-	3,054,184
Charge in the year	432,904	81,296	-	514,200
At 31 December 2017	2,339,173	1,229,211	-	3,568,384
Net book value				
At 31 December 2017	**695,741**	**240,410**	**34,114**	**970,265**

21 DUE TO FINANCIAL INSTITUTIONS

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Current deposits	-	2,258
Wakala deposits	**144,834,036**	79,043,239
	144,834,036	79,045,497

The amounts above are all due to fellow group companies.
The distribution of due to financial institutions by geographic region was as follows:

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Other Middle East	-	2,258
UAE	**144,834,036**	79,043,239
	144,834,036	79,045,497

22 DEPOSITORS' ACCOUNTS

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Current accounts	**36,086,522**	26,442,432
Investment accounts	**5,542,729**	4,344,509
	41,629,251	30,786,941

The distribution of the gross depositors' accounts by industry sector, geographic region and currency was as follows:

Industry sector:		
Individuals	**25,222,080**	25,144,830
Corporates	**16,407,171**	5,642,111
	41,629,251	30,786,941
Geographic region:		
Other Middle East	**10,652,206**	12,160,061
UAE	**7,087,994**	8,395,077
UK	**4,433,212**	2,137,471
Rest of the world	**19,455,839**	8,094,332

	41,629,251	30,786,94 1

DEPOSITORS ACCOUNTS *continued*

Currency:		
USD	**4,839,115**	3,326,680
GBP	**36,790,136**	27,460,26 1
	41,629,251	30,786,94 1

23 OTHER LIABILITIES

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Deferred income	**574,910**	186,082
Accounts payable	**74,057**	149,908
Accrued expenses	**631,733**	615,184
Other liabilities	**384,974**	547,155
	1,665,674	1,498,329

24 SHARE CAPITAL

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Authorised and fully paid up share capital:		
Issue of ordinary share capital		
58,041,000 Ordinary shares of £1 each at the beginning of the year	**58,041,000**	58,041,000
Ordinary shares of £1 each issued in the year	**-**	-
58,041,000 Ordinary shares of £1 each at the end of the year	**58,041,000**	58,041,000

25 FINANCIAL COMMITMENTS

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
The Bank's principal operational premises are leased		
The cumulative commitments under non-cancellable operating leases are as follows:		
Within one year	**1,026,990**	1,026,990
In two to five years	**4,107,960**	

		4,107,960
After five years	**2,023,346**	3,949,601
	7,158,296	9,084,551

26 CASH AND CASH EQUIVALENTS

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Cash	**282,801**	214,067
Balances with Islamic banks and other financial institutions, short term	**26,519,514**	15,447,493
Murabaha and wakala deposits with financial institutions, short term	**-**	-
	26,802,315	15,661,560

27 RELATED PARTY TRANSACTIONS

Related parties represent the Parent, associated companies, directors and key management personnel of the Bank, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the Bank's management. These transactions are primarily with the parent company.

Transactions with related parties included in the statement of comprehensive income:

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Profit paid on investment deposits	**1,284,007**	679,303

Balances with the related parties included in the statement of financial position are as follows:

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Balances with Islamic banks and other financial institutions	**6,529,612**	2,634,691
Due to financial institutions	**(144,834,036)**	(79,045,497)
Other Liabilities	**(108,312)**	(87,563)
Fair value of forward (wa'ad) foreign exchange undertakings	**(6,462)**	297,280

Profit rates earned on balances with banks and financial institutions extended to related parties during the year ranged from 0.27% to 2.00% (2017: 0% to 0.80% per annum).

Profit rates paid on due to financial institution and investment deposits placed by related parties during the year ranged from 0.30% to 1.53% per annum (2017: 0% to 1.0% per annum).

RELATED PARTY TRANSACTIONS continued

Compensation of key management personnel of the Bank:

	31 Dec 2018 GBP 000s	*31 Dec 2017 GBP 000s*
Salaries & bonus	**981**	1,072
Pension & medical benefits	**77**	72
Termination benefits	**0**	-
Share based payment transactions	**0**	-
Total compensation paid to key management personnel	**1,058**	1,144

28 SEGMENT INFORMATION

Retail banking - Principally handling small and medium businesses and individual customers’ deposits, providing consumer and commercial murabaha, Islamic covered card and funds transfer facilities.

Treasury – Principally handling money markets, trading and treasury services, as well as the management of the Bank’s funding operations by use of investment deposits.

Real Estate – Principally handling the acquisition, selling, and development and leasing of both land and buildings.

Segment information is provided on assets, liabilities and income as it is presented internally to management. No further segmental or geographical analysis is given on expenses.

	2018 Retail GBP	***2018 Real Estate GBP***	***2018 Treasury GBP***
ASSETS			
Cash			282,801
Balances with Islamic banks and other financial institutions	-	-	26,519,514
Murabaha and wakala deposits with financial institutions	-	-	-
Ijara and other Islamic financing	10,333	153,740,966	-
Investments in sukuk at amortised cost	-	-	-
Investments in sukuk at fair value	-	-	41,379,925
Other assets	1,044,297	-	-

Property and equipment	451,909	-	-
TOTAL ASSETS	**1,506,539**	**153,740,966**	**68,182,240**

SEGMENT INFORMATION continued

	2018	***2018***	***2018***
	Retail	***Real Estate***	***Treasury***
LIABILITIES	***GBP***	***GBP***	***GBP***
Due to financial institutions	-	144,834,036	-
Depositors' accounts	41,629,251	-	-
Sharia's alternative for derivate financial instruments	-	-	6,462
Other liabilities	1,665,674	-	-
TOTAL LIABILITIES	**43,294,925**	**144,834,036**	**6,462**

	2017	***2017***	***2017***
	Retail	***Real Estate***	***Treasury***
	GBP	***GBP***	***GBP***
ASSETS			
Cash	-	-	214,067
Balances with Islamic banks and other financial institutions	-	-	15,447,493
Murabaha and wakala deposits with financial institutions	-	-	-
Ijara and other Islamic financing	11,000	77,904,755	-
Investments in sukuk at amortised cost	-	-	739,963
Shari'a alternative for derivative financial instruments	-	-	297,280
Investments in sukuk at fair value	-	-	52,752,834
Other assets	957,254	-	-
Property and equipment	970,265	-	-
TOTAL ASSETS	**1,938,519**	**77,904,755**	**69,451,637**
LIABILITIES			
Due to financial institutions	2,258	79,043,239	-
Depositors' accounts	30,786,941	-	-
Other liabilities	1,498,329	-	-
TOTAL LIABILITIES	**32,287,528**	**79,043,239**	**-**

SEGMENT INFORMATION continued

	2018	*2018*	*2018*	*2018*	*2018*	*2018*
	Other Middle East	***UAE***	***UK***	***US***	***Hong Kong***	***Other***
	GBP	***GBP***	***GBP***	***GBP***	***GBP***	***GBP***
Cash	-	-	282,801	-	-	-
Balances with Islamic banks and other financial institutions	-	6,529,612	17,231,983	2,757,919	-	-
Murabaha and wakala deposits with financial institutions	-	-	-	-	-	-
Ijara and other Islamic financing	-	14,956,851	138,794,448	-	-	-
Investments in sukuk at amortised cost	-	-	-	-	-	-
Investments in sukuk at fair value	5,311,586	13,785,199	19,949,818	-	2,333,322	-
Shari'a alternative for derivative financial Instruments	-	-	-	-	-	-
Other assets	-	-	1,044,297	-	-	-
Property and equipment	-	-	451,909	-	-	-
TOTAL ASSETS	**5,311,586**	**35,271,662**	**177,755,255**	**2,757,919**	**2,333,322**	**-**
Due to financial institutions	-	144,834,036	-	-	-	-
Depositors' accounts	10,652,206	7,087,994	4,433,212	-	-	19,455,839
Shari'a alternative for derivative financial Instruments	-	6,462	-	-	-	-
Other liabilities	-	-	1,665,674	-	-	-
TOTAL LIABILITIES	**10,652,206**	**151,928,492**	**6,098,886**	**-**	**-**	**19,455,839**

SEGMENT INFORMATION continued

	2017 Other Middle East GBP	*2017 UAE GBP*	*2017 UK GBP*	*2017 US GBP*	*2017 Hong Kong GBP*	*2017 Other GBP*
Cash			214,067			
Balances with Islamic banks and other financial institutions	-	2,634,691	9,001,827	3,810,975	-	-
Murabaha and wakala deposits with financial institutions	-	-	-	-	-	-
Ijara and other Islamic financing	-	4,972,500	72,943,255	-	-	-
Investments in sukuk at amortised cost	-	739,963	-	-	-	-
Investments in sukuk available for sale	5,174,696	17,517,839	20,458,600	-	7,353,918	2,247,781
Shari'a alternative for derivative financial Instruments	-	-	297,280	-	-	-
Other assets	-	-	957,254	-	-	-
Property and equipment	-	-	970,265	-	-	-
TOTAL ASSETS	**5,174,696**	**25,864,993**	**104,842,548**	**3,810,975**	**7,353,918**	**2,247,781**
Due to financial institutions	2,258	79,043,239	-	-	-	-
Depositors' accounts	12,160,061	8,395,077	2,137,471	-	-	8,094,332
Other liabilities	-	-	1,498,329	-	-	-
TOTAL LIABILITIES	**12,162,319**	**87,438,316**	**3,635,800**	**-**	**-**	**8,094,332**

SEGMENT INFORMATION continued

	2018	*2018*	*2018*
	Retail	*Real Estate*	*Treasury*
	GBP	*GBP*	*GBP*
OPERATING INCOME			
Income from murabaha and wakala with financial institutions	-	-	151,967
Investment income on sukuk	-	-	773,542
Income from ijara and other Islamic financing with customers	-	4,307,102	-
Fees and commission income, net	455,989	-	-
Foreign exchange gain/ (loss)	-	-	(7,145)
Fair value (loss)/gain on forward (wa'ad) foreign exchange	-	-	(430,007)
	455,989	**4,307,102**	**488,357**

	2017	*2017*	*2017*
	Retail	*Real Estate*	*Treasury*
	GBP	*GBP*	*GBP*
OPERATING INCOME			
Income from murabaha and wakala with financial institutions	-	-	10,812
Investment income on sukuk	-	-	1,150,302
Income from ijara and other Islamic financing with customers	-	2,932,410	-
Fees and commission income, net	203,509	-	-
Foreign exchange gain/ (loss)	-	-	(449,118)
Fair value (loss)/gain on forward (wa'ad) foreign exchange	-	-	22,608
	203,509	**2,932,410**	**734,604**

29 RISK MANAGEMENT

29.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank is exposed to credit risk through its real estate financing activities and also its placement and investment activities. In relation to its real estate investment activities, the Bank general provides financing at relatively modest exposure to value levels (up to 60% for residential and 65% for commercial) and updates the valuations on a regular basis. The Bank's real estate financings generally have a covenant included that if certain exposure to value levels is exceeded, the customer is required to prepay part of the financing. Individual counterparty limits are set in relation to credit exposures for wakala and murabaha deposits, the exposures are monitored on a daily basis. The Bank also monitors the credit ratings of its counterparties with any downgrades escalated to the appropriate forum within the Bank. The credit limits are reviewed on an annual basis.

Management of credit risk

The Bank employs the Three Lines of Defence model appropriate to its scale and complexity, in the identification, assessment, management and control of Credit Risk. Risk is managed using the three lines of defence principle – separating risk origination from risk oversight and risk assurance. Governance is provided through a formal committee process, including the Board level, Audit and Risk Committee (ARC).

The management therefore falls within the remit of the First Line, whose responsibility it is to assess and prepare the case for any new credits.

This is done utilising world class systems from internationally recognised providers; the systems themselves providing structure and uniformity in the assessment and appraisal of the credit proposals. These proposals are then forwarded to the Credit Approval Committee for evaluation and approval (in line with Board agreed delegated authorities).

Oversight at this stage is provided by the Chief Risk Officer, who, due to the size and complexity of the organisation, is part of the Credit Approval Committee, as defined within the systems. Therefore the Second Line (represented by the CRO) is actively involved in providing oversight of Credit Risk at this early stage.

The CRO is appointed by the Board and is responsible for the Bank's overall Risk Management Framework and for ensuring that the Bank operates under its Board approved Risk Appetite. The Risk Management Framework outlines the process by which we identify, manage, monitor and report risks to which the Bank is exposed.

At an enterprise wide level, the Risk function in the Bank (headed by the CRO) is responsible for the operationalisation and implementation of the Bank's risk policies, including the Credit Risk Policy and to the Board approved Risk Appetite limits and tolerances. This forms an important element of the Control environment and is evidenced in practice through:

- monitoring of recent credit exposures, transactions with specific counterparties, countries or sectors and continually assessing the creditworthiness of all counterparties. It also ensures that credit capacity is diversified across the Bank's business lines to ensure an appropriate allocation of risk capital and avoid undue concentrations to industries and obligors.
- continuous assessment of the portfolio, including aspects that may raise concerns on ETV levels or specific trends in covenant breaches
- reviewing and recommending exceptions to delegated limits or policies (CPE), to the appropriate level
- monitoring ongoing adherence to country and counterparty limits, as part of Concentrations oversight across the whole portfolio
- reviewing, monitoring and actioning, as appropriate, any non-performing credits, in accordance with the Three Stages of IFRS9
- monitoring to the risk appetite of the Bank and highlighting any near breaches and recommending remedial actions

Reporting is undertaken and effected through the Corporate Governance arrangements at both Executive and Board level Committees. Two committees are specifically involved, being the:

Business, Risk and Compliance Committee (BRACC) – Executive level, Chaired by the CRO- meeting monthly Audit and Risk Committee (ARC) – Board level, Chaired by an INED are meeting quarterly.

The above Chairs are duly authorised and approved under the Senior Managers Regime, which has been adopted since March 2016. Formal and independent escalation procedures are in force to ensure rapid escalation of matters from the Chair of BRACC to the Chair of ARC, thus ensuring that the Risk Management Framework and Corporate Governance are aligned.

Formal reporting at the ARC, supported by the CRO assurances, is promoted to the Board, for their visibility that the Risks in the bank are identified, assessed and controlled in line with the formal delegated and prescribed responsibilities.

Model risk management
For effective risk measurement, the Bank uses a range of risk quantification models such as customer risk rating/scoring, loss given default, market risk and stress testing models. These risk models are subject to the Bank's model governance policy, which prescribes guidelines across the model life cycle and establishes principles and instructions to enable an effective decision process across stakeholders in order to develop and maintain high quality risk models. The governance policy covers the following:

- The roles and responsibilities of stakeholders (Model Developer, Independent Validator, Approval Authority etc.),
- The minimum requirement for each of the model life cycle steps,
- The approval process,
- The minimum documentation requirement.

Credit risk measurement
Credit risk is measured in terms of expected credit loss (ECL), which is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default EAD), and discounting at the initial effective profit rate.

The Bank has developed a range of models to estimate these parameters. For the portfolios where sufficient historical data was available, the Bank has developed a statistical model and for other portfolios judgmental models were developed.

Credit risk grading
The Bank has designed a master rating scale, which has 22 risk grades reflecting assessment of default probability of the customer. The master rating scale comprises 19 performing grades and 3 non-performing grades.

Customers are rated using segment specific customer risk rating models, which uses financial and non-financial information related to the customer to arrive at a risk rating. The risk ratings are calibrated to PiT (Point-in-Time) PD for IFRS 9 based calculations.

ECL measurement
The assessment of credit risk and the estimation of ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

As per the IFRS 9 requirements, the Bank calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over the next 12 months or effective remaining life of the facility. Expected Loss at any point in time of the life of the facility is calculated using the following formula:

Expected Credit Loss (ECL) = PD*EAD*LGD

For each facility the Bank calculates ECL over two forecast periods:

- 12 Month: ECL is calculated using 12-month forward looking PD, LGD and EAD.
- Lifetime: ECL is calculated using Lifetime forward looking PD, LGD and EAD.
-

  12 Month or Lifetime ECL for each facility is used depending on the stage of the facility, as explained below:

- **Stage1:** where no significant increase in credit risk is observed,12 month Expected Credit Loss (ECL) is recorded as impairment provision;
- **Stage2:** where significant increase in credit risk has been observed, Life-time ECL is recorded as impairment provision;
- **Stage3:** where the exposure is defaulted or impaired, Life-time ECL is recorded as impairment provision.

ECLs under IFRS 9 as at 31 December 2018:

	GBP	***GBP***	***GBP***	***Total***
Classification	Substandard	Doubtful	Loss	
Stage	**Stage 1**	**Stage 2**	**Stage 3**	**ECL**
Balances with Islamic Banks	438	-	-	438
Ijara and other Islamic financing	3,095	-	-	3,095
Financial instruments measured at fair value through other comprehensive income (FVOCI)	7,253	-	-	7,253
Other assets	5,528	-	-	5,528
Total	16,314	-	-	16,314

Significant increase in credit risk (SICR)
The stage allocation is determined by identifying a significant increase in credit risk since initial origination. The Bank assesses when significant increase in credit risk has occurred based on the quantitative and qualitative assessments. The facilities are classified as stage 2 when they meet following criteria:

Quantitative criteria: Thresholds based on absolute PD or relative PD increase compared to origination have been defined for various portfolios, in order to determine the significant increase in credit risk.

Qualitative criteria: Independent of PD, the Bank also uses qualitative information to assess the significant increase in credit risk. This includes information such as watch list classification and indicators of historic delinquency.

Whenever there is a past due of 30 days, an individual assessment is made, whether there is a significant increase in credit risk.

Definition of default and credit-impaired assets
The Bank defines instrument as default, when it meets one or more of the following criteria:

Retail: A customer who is delinquent over 90 days past due will be classified as default or credit impaired.

Corporate: All customers currently classified/rated as below will be considered under default:

- Where classification is Substandard, Doubtful or Loss
- Risk Rating is D/8, D/9, and D/10

The customers are classified or downgraded in the above categories, based on a comprehensive assessment of the customer's credit quality. This assessment includes review of payment history, capacity to pay and financial health.

Measuring ECL- Explanations of input, assumptions and estimation techniques
As per IFRS 9, the ECL calculated for a facility should incorporate both current and forward-looking economic outlook over 12 months and over the remaining life of the facility.

The Bank calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over forecast period (next 12 months or effective remaining life of the facility).

At the reporting date, a monthly ECL is estimated for each individual exposure for each month until the end of the forecast period. This is calculated as a simple multiplication of PD, LGD and EAD at each month. These monthly ECLs are discounted to the reporting date using the effective profit rate and the summation of these discounted monthly ECLs gives the ECL estimate. The lifetime ECL is the sum of the monthly ECLs over the remaining life, while the 12-month ECL is limited to the first 12 months.
The estimation methodology for three main components, PD, LGD and EAD is explained below:

Probability of Default (PD):
PDs are driven by the risk rating generated from respective rating models. Historical default rates of different segments have been used to develop PD macroeconomic overlay models. The PDs forecasted from the models are then converted to cumulative PD using survival analysis concept and a marginal PD is derived.

Loss Given Default (LGD):
ADIB uses an off-the-shelf model, calibrated on the Bank's portfolio, to calculate unsecured LGD. Secured LGD is then calculated after taking the benefit of the assigned collaterals. The LGDs are adjusted for macroeconomic outlook.

Exposure at Default (EAD):
The EAD is the amount which the Bank expects a customer to owe in the event of default. The EAD depends on the product type:

- For amortizing products, this is based on the contractual payments over the forecast period.
- For revolving/off-balance products, this is estimated as a combination of current exposure and credit conversion factor applied on the undrawn portion of the limit.

The Bank applies a management overlay for cases where models are unable to capture customer's idiosyncrasies. These overlays are discussed and approved by appropriate management committee of the Bank.

Forward-looking information incorporated in the ECL model
As per IFRS 9 requirements, forward looking economic outlook has also been incorporated in the loss calculations. The Bank has developed a macro-economic overlay models by performing statistical analysis to establish a historical relationship of macro-economic variables with PD and components of LGD. These models depend on various variables such as Oil Price, GDP and Real Estate price etc. The macro-economic models are used to adjust the PD and LGD calculated from the base models. In addition to ECL calculations, the forward looking lifetime PD is used to determine the significant increase in credit risk.

The Bank sources the macro-economic scenarios data from an external vendor, which uses scenarios built based on the current market conditions and outlook of their economic team. The Bank uses three macro-economic scenarios and a weightage has been assigned to each scenario.

Credit risk monitoring
For IFRS 9 ECL computation, credit exposures are monitored and reported as per IFRS 9 requirements. Stage migrations, any exceptions to SICR criteria, other credit and impairment related matters are reviewed and approved by an appropriate management committee.

Risks of the Bank's credit portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

Collateral
The Bank assesses the exposures against the collateral held, this is done as part of the initial credit assessment and then periodically as part of the annual credit reviews. The financing transactions are collateralised against residential and commercial properties.

A property valuation is performed at origination, periodically thereafter and in the event of a change in risk, which is monitored monthly.

The collateralised financing exposures presented as "Unrated" in the table below represents financing on the real estate assets. The fair value of collateral can vary.

29.1.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

29.1.1

	Notes	***Gross maximum exposure 2018 GBP***	*Gross maximum exposure 2017 GBP*
Balances with Islamic banks and other financial institutions	14	26,519,514	15,447,493
Murabaha and wakala deposits with financial institutions		-	-
Ijara and other Islamic financing	15	153,751,299	77,904,633
Investments in sukuk at amortised cost	16	-	739,963
Investments in sukuk at fair value through other comprehensive income	17	41,379,925	-
Investments in sukuk – available for sale	17	-	52,752,834
Other assets (excluding prepaid expenses)	19	645,491	859,120
Total credit risk exposure		222,296,229	147,704,043

29.2 Credit risk concentration

The concentration of the Bank's assets and liabilities by geographical segment is based primarily upon the location of the counter party.

	Balances with Islamic banks and other financial institutions	Murabaha and wakala deposits with financial institutions	Ijara and other Islamic financing	Investments in sukuk at amortised cost	Investments in sukuk at fair value	Other assets(excluding prepaid expenses)	**Total credit risk exposure**
	GBP	GBP	GBP	GBP	GBP	GBP	**GBP**
31-Dec-18							
Other Middle East	-	-	-	-	-	-	-
UAE	6,529,612	-	14,956,851	-	13,785,198	-	35,271,611
UK	17,231,983	-	138,794,448	-	19,949,819	645,491	176,621,741
US	2,757,919	-	-	-	-	-	2,757,919
Hong Kong	-	-	-	-	2,333,322	-	2,333,322
Other	-	-	-	-	5,311,586	-	5,311,586
Financial assets subject to credit risk	**26,519,514**	**-**	**153,751,299**	**-**	**41,379,925**	**645,491**	**222,296,229**

29.2 Credit risk concentration continued

31-Dec-17	Balances with Islamic banks and other financial institutions GBP	Murabaha and wakala deposits with financial institutions GBP	Ijara and other Islamic financing GBP	Investments in sukuk at amortised cost GBP	Investments in sukuk at fair value GBP	Other assets (excluding prepaid expenses) GBP	**Total credit risk exposure GBP**
Other Middle East	-	-	-	-	5,174,696	-	5,174,696
UAE	2,634,691	-	4,972,500	739,963	17,517,839	-	25,864,994
UK	9,001,827	-	72,932,133	-	20,458,600	859,120	103,251,680
US	3,810,975	-	-	-	-	-	3,810,975
Hong Kong	-	-	-	-	7,353,918	-	7,353,918
Other	-	-	-	-	2,247,781	-	2,,247,781
Financial assets subject to credit risk	**15,447,493**	**-**	**77,904,633**	**739,963**	**52,752,834**	**859,120**	**147,704,043**

29.2 Credit risk concentration continued

The distribution of the Bank's financial assets by industry sector is as follows:

	Balances with Islamic banks and other financial institutions	Murabaha and wakala deposits with financial institutions	Ijara and other Islamic financing	Investments in sukuk at amortised cost	Investments in sukuk at fair value	Other assets (excluding prepaid expenses)	**Total credit risk exposure**
31-Dec-18							
Financial Institution	26,519,514	-	-	-	16,711,203	645,491	43,876,208
Governments	-	-	-	-	22,283,140	-	22,283,140
Corporate	-	-	153,740,966	-	2,385,582	-	156,126,548
Retail	-	-	10,333	-	-	-	10,333
Other	-	-	-	-	-	-	-
	26,519,514	**-**	**153,751,299**	**-**	**41,379,925**	**645,491**	**222,296,229**

29.2 Credit risk concentration continued

	Balances with Islamic banks and other financial institutions	Murabaha and wakala deposits with financial institutions	Ijara and other Islamic financing	Investments in sukuk at amortised cost	Investments in sukuk at fair value	Other assets (excluding prepaid expenses)	**Total credit risk exposure**
31-Dec-17							
Financial Institution	15,447,493	-	-	-	5,174,696	-	20,622,189
Governments	-	-	-	-	30,060,299	-	30,060,299
Corporate	-	-	72,932,133	739,963	17,517,839	-	91,189,935
Retail	-	-	4,972,500	-	-	11,122	4,983,622
Other	-	-	-	-	-	847,998	847,998
	15,447,493	**-**	**77,904,633**	**739,963**	**52,752,834**	**859,120**	**147,704,043**

29.3 Credit quality per class of financial assets

The Bank measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset and impairment losses, if any. The following table shows the maximum exposure (excluding committed facilities) to credit risk for murabaha, investments and other Islamic financing.

	Neither past due nor impaired	*Neither past due nor impaired*
	2018	*2017*
	GBP	*GBP*
Balances with Islamic banks and other financial institutions	26,519,514	15,447,493
Murabaha and wakala deposits with financial institutions	-	-
Ijara and other Islamic financing	153,751,299	77,904,633
Investments in sukuk at amortised cost	-	739,963
Investments in sukuk at fair value	41,379,925	52,752,834
Other assets (excluding prepaid expenses)	645,491	859,120
Financial assets subject to credit risk	222,296,229	147,704,043

The following table shows the maximum exposure to credit risk by class of financial asset. It also shows the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

31 December 2018

Credit Quality Step	**Exposure Values (GBP thousands)**	**Fair value of collateral and credit enhancements held (Property)**	**Surplus collateral**	**Total collateral**	**Exposure Values after mitigation (GBP thousands)**
Securities					
Investment Grade	67,900	-	-	-	67,900
Ijara and other Islamic financing and Other Assets					
Unrated	154,396	361,280	206,884	361,280	-
Total per Credit Risk Concentration	**222,296**	**361,280**	**206,884**	**361,280**	**67,900**

31 December 2017

Credit Quality Step	**Exposure Values (GBP thousands)**	**Fair value of collateral and credit enhancements held (Property)**	**Surplus collateral**	**Total collateral**	**Exposure Values after mitigation (GBP thousands)**
Securities					
Investment Grade	68,938	-	-	-	68,938
Ijara and other Islamic financing and Other Assets					
Unrated	78,766	118,434	39,668	118,434	-
Total per Credit Risk Concentration	**147,704**	**118,434**	**39,688**	**118,434**	**68,938**

The largest exposure value represents after mitigation was the Bank's investment in the HM Treasury UK Sukuk.

29.4 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Oversight of the Bank's liquidity risk management is provided by the Bank's Asset and Liability Committee (ALCO) which meets on a monthly basis. The Bank operates strong liquidity management, with funds placed in high quality liquid instruments with carefully chosen counterparties. The Bank has prepared a liquidity contingency plan, which identifies early warning indicators of potential liquidity stress, and identifies the Bank's response to such stress. The early warning indicators are monitored on a daily basis. The Bank operates within the Prudential Regulatory Authority liquidity regime.
The Bank monitors liquidity on a daily basis by calculating the liquid assets buffer (LAB) requirement using the Liquidity Coverage Ratio (LCR).

29.4.1 Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial assets and liabilities at reporting date based on contractual maturities.

31-Dec-18	***Less than 3 months*** ***GBP***	***3 months to 1 Year*** ***GBP***	***1 year to 5 years*** ***GBP***	***Over 5 years*** ***GBP***
ASSETS				
Cash	282,801	-	-	-
Balances with Islamic banks and other financial institutions	26,519,514	-	-	-
Murabaha and wakala deposits with financial institutions	-	-	-	-
Ijara and other Islamic financing	5,211,040	3,799,382	160,015,115	-
Investments in sukuk instruments at amortised cost	-	-	-	-
Investments in sukuk at fair value	295,190	26,689,023	17,835,372	-
Other assets (excluding prepaid expenses)	645,491	-	-	-
Financial assets	**32,954,037**	**30,488,405**	**177,850,487**	**-**
Non-financial assets				**850,715**
TOTAL ASSETS				**242,143,644**

LIABILITIES				
Due to financial institutions	9,441,255	1,323,764	137,766,123	-
Depositors' accounts	39,607,220	2,022,030	-	-
Shari'a alternative for derivative financial instruments	6,462	-	-	-
Other liabilities	1,665,674	-	-	-
	50,720,611	**3,345,794**	**137,766,123**	**-**
TOTAL LIABILITIES				**191,832,528**

Depositors accounts are primarily established customers of the Bank who are considered unlikely to demand the repayment of deposits in the short term.
Off Balance Sheet commitments:
Gross finance lease obligations relating to the Bank's premises are set out in Note 25 Financial Commitments.
Forward Foreign Exchange commitments are set out in Note 29.5 Currency risk.

29.4.1 Analysis of financial assets and financial liabilities by remaining contractual maturities continued

31-Dec-17	***Less than 3 months*** *GBP*	***3 months to 1 Year*** *GBP*	***1 year to 5 years*** *GBP*	***Over 5 years*** *GBP*
ASSETS				
Cash	214,067	-	-	-
Balances with Islamic banks and other financial institutions	15,447,493	-	-	-
Murabaha and wakala deposits with financial institutions	-	-	-	-
Ijara and other Islamic financing	709,517	2,148,393	74,336,366	710,357
Investments in sukuk at amortised cost	739,963	-	-	-
Investments in sukuk – available-for-sale	-	-	52,752,834	-
Other assets (excluding prepaid expenses)	859,120	-	-	-
Financial assets	**17,970,160**	**2,148,393**	**127,089,200**	**710,357**
Non-financial assets				**1,376,801**
TOTAL ASSETS				**149,294,911**

LIABILITIES

Due to financial institutions	992,997	-	78,052,500	-
Depositors' accounts	30,736,941	50,000	-	-
Shari'a alternative for derivative financial instruments	-	-	-	-
Other liabilities	1,339,064	29,320	129,945	-
	33,069,002	79,320	78,182,445	-
TOTAL LIABILITIES				**111,330,767**

29.4.2 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect fair values of financial instruments. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and instruments that mature or re-price in a given period. Oversight of the management of Profit rate risk is provided by the Bank's ALCO, which meets on a monthly basis. The Bank manages this risk by managing re-pricing gaps and by investing in both fixed and variable rate assets.

The effective profit rate (effective yield) of a monetary instrument is the rate that, when used in present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating instrument or an instrument carried at fair value.

The following table estimates the sensitivity of the Bank's Statement of Comprehensive Income to a reasonable possible change in profit rates, with all other variables held constant. The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in profit rates (whether increase or decrease) on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

Currency	*Increase in basis points*	*Sensitivity of profit on financial assets and liabilities* ***2018 GBP***	*Sensitivity of profit on financial assets and liabilities 2017 GBP*
GBP	**50**	261,000	171,000
USD	**50**	-	-

29.5 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency in accordance with the Bank's policy. Oversight of the management of currency risk is provided by the Bank's ALCO, which meets on a monthly basis. Positions are monitored on a daily basis and foreign exchange forward (wa'ad) undertakings are used to ensure positions are maintained within established limits. The table below indicates the extent to which the Bank was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against GBP, with all other variables held constant, on the Statement of Comprehensive Income (due to the changes in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated in Statement of Comprehensive Income on investments carried at fair value through other comprehensive income.

	% Increase currency rates	Effect on net profit GBP	Effect on equity GBP	
31 December 2018				
Currency				
USD	5	1,817	1,817	**31**
December 2017				
Currency				
USD	5	4,574	4,574	

The USD exposures are covered by a forward (wa'ad) foreign exchange undertakings.

The table below shows the Bank's exposure to foreign currencies.

31-Dec-18	***GBP***	***USD***	***AED***	***Total***
ASSETS				
Cash	282,801	-	-	282,801
Balances with Islamic banks and other financial institutions	19,972,289	6,527,332	19,893	26,519,514
Murabaha and wakala deposits with financial institutions	-	-	-	-
Ijara and other Islamic financing	153,751,299	-	-	153,751,299
Investments in sukuk at amortised cost	-	-	-	-
Investments in sukuk at fair value	19,949,818	21,430,107	-	41,379,925
Other assets	917,502	126,795	-	1,044,297
Property and equipment	451,909	-	-	451,909
TOTAL ASSETS	**195,325,618**	**28,084,234**	**19,893**	**223,429,745**
LIABILITIES				
Due to financial institutions	144,834,036	-	-	144,834,036
Depositors' accounts	40,604,461	1,024,790	-	41,629,251
Shari'a alternative for derivative financial instruments	6,462	-	-	6,462
Other liabilities	1,532,675	17,096	115,904	1,665,675
TOTAL LIABILITIES	**186,977,633**	**1,041,886**	**115,904**	**188,135,423**
OFF BALANCE SHEET				
FX forward undertakings	**23,791,342**	**(23,592,033)**	**-**	**199,310**

29.5 Currency risk continued

31-Dec-17	***GBP***	***USD***	***AED***	***Total***
ASSETS				
Cash	214,067	-	-	214,067
Balances with Islamic banks and other financial institutions	11,015,620	4,413,383	18,490	15,447,493
Murabaha and wakala deposits with financial institutions	-	-	-	-
Ijara and other Islamic financing	77,893,511	-	-	77,893,511
Investments in sukuk held to maturity	-	739,963	-	739,963
Investments in sukuk at fair value	20,241,934	32,510,900	-	52,752,834
Other assets	1,221,786	7,235	25,513	1,221,786
Property and equipment	873,017	-	97,248	970,265
TOTAL ASSETS	**111,488,641**	**37,671,481**	**141,251**	**149,294,911**
LIABILITIES				
Due to financial institutions	79,045,497	-	-	79,045,497
Depositors' accounts	27,460,261	3,326,680	-	30,786,941
Shari'a alternative for derivative financial instruments	-	-	-	-
Other liabilities	1,281,651	-	216,678	1,498,329
TOTAL LIABILITIES	**107,793,871**	**3,326,680**	**216,678**	**111,330,767**
OFF BALANCE SHEET				
FX forward undertakings	**34,718,714**	**(34,499,860)**	**-**	**218,854**

29.6 Price Risk

Price risk is the risk that the Bank will be adversely affected by price movements in traded instruments. The Bank's ALCO has oversight responsibility for market risk, which includes price risk. The FVOCI sukuk portfolio is marked to market prices on a daily basis which is reported to the members of EXCO.

29.7 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Bank has adopted the basic indicator approach to the Pillar 1 minimum capital requirement for operational risk. Responsibility for operational risk lies with the Bank's management, with oversight provided by the Audit & Risk Committee. The Bank has in place robust procedures and controls to mitigate the incidence of operational losses. Risk and Control Self Assessments are undertaken to identify risk and mitigants, corrective action plans derived from these assessments are tracked to conclusion.

29.8 Capital management

A key objective of the Bank is to maximize shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with the externally imposed capital requirements.

Capital adequacy is monitored on a regular basis against both regulatory and internal capital requirements. The Bank ensures that it has adequate capital even in stress scenarios though the Individual Capital Adequacy Assessment Process.

The Bank's capital requirements are set and monitored by the PRA.
The following table shows the Bank's regulatory capital position as at 31 December 2018.

	31-Dec 2018 GBP	*31-Dec 2017 GBP*
Ordinary share capital	58,041,000	58,041,000
Accumulated loss	(22,746,678)	(20,076,856)
Total Tier 1 capital	35,294,322	37,964,144
Total regulatory capital	**35,294,322**	**37,964,144**

At 31 December 2018 and throughout the year, the Bank complied with the capital requirements that were in force as set out by the PRA.

Regulatory and internal capital adequacy is monitored on a daily basis and reported to the Board Audit & Risk Committee on a quarterly basis.

30 FAIR VALUE OF FINANCIAL INSTRUMENTS

The directors have considered the fair values of the Bank's main financial assets, which are balances and wakala deposits with Islamic banks and other financial institutions, murabaha with financial institutions, ijara and other Islamic financing and investment securities.

In the opinion of the directors, no liquid secondary market currently exists for the balances and wakala deposits with Islamic banks and other financial institutions, murabaha with financial institutions, ijara and other Islamic financing and investment securities. The directors believe that the book value is the best approximation of the fair value at this time.

Financial investments – held to maturity	*Carrying amount GBP*	*Fair value GBP*
31 December 2017		
Investments in sukuk – held to maturity (note 17)	739,963	740,597

FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value hierarchy measurement recognised in the statement of financial position
IFRS 7 specifies three hierarchies of valuation techniques depending on whether the inputs to the valuation techniques are observable or unobservable in the market. Inputs are observable if they reflect market data obtained from independent sources and unobservable if they are based on market assumptions. The valuation of financial asset and liability therefore follows one of the levels below.

Level 1: quoted (unadjusted prices in active markets for identical assets or liabilities).
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The fair value for available for sale sukuk is based on quoted price as defined in level 1, under IFRS 7.

Derivative Financial Instruments (Shari'a alternative foreign currency forward undertakings - level 2) are not traded in active markets. These have been fair valued using observable forward exchange rates and profit rates corresponding to the maturity of the undertakings. The effects of non-observable inputs are not significant for foreign currency forward undertakings.

The following table presents the Bank's assets that are measured at fair value as at 31 December.
There has been no change in the method of valuation compared to prior year.

31-Dec-18	***Level 1*** ***GBP***	***Level 2*** ***GBP***	***Level 3*** ***GBP***	***Total*** ***GBP***
Financial assets at fair value through profit and loss				
- Sukuk instruments	-	-	-	-
- Equity instruments	-	-	-	-
Shari'a alternative for derivative financial instruments	-	(6,462)	-	(6,462)
Investments in sukuk at fair value through other comprehensive income				
- Sukuk instruments	41,379,925	-	-	41,379,925
Total Assets	**41,379,925**	**(6,462)**	**-**	**41,373,463**

FAIR VALUE OF FINANCIAL INSTRUMENTS continued

31-Dec-17	*Level 1* *GBP*	*Level 2* *GBP*	*Level 3* *GBP*	*Total* *GBP*
Financial assets at fair value through profit and loss				
- Sukuk instruments	-	-	-	-
- Equity instruments	-	-	-	-
Shari'a alternative for derivative financial instruments	-	297,280	-	297,280
Financial investments available for sale				
- Sukuk instruments	52,752,834	-	-	52,752,834
- Equity instruments	-	-	-	-
Total Assets	**52,752,834**	**(297,280)**	**-**	**52,455,554**

There were no transfers made between level 1 and level 2 instruments.

The following table presents the Bank's assets that are measured at amortised cost as at 31 December.

31-Dec-18	***Carrying Amount GBP***	***Fair Value GBP***	***Level 1 GBP***	***Level 2 GBP***	***Level 3 GBP***	***Total GBP***
Investments in sukuk at amortised cost	-	-	-	-	-	-
Total Assets	-	-	-	-	-	-

31-Dec-17	*Carrying Amount GBP*	*Fair Value GBP*	*Level 1 GBP*	*Level 2 GBP*	*Level 3 GBP*	*Total GBP*
Investments in sukuk at amortised cost	739,963	740,597	740,597	-	-	740,597
Total Assets	739,963	740,597	740,597	-	-	740,597

There were no transfers made between level 1 and level 2 instruments.

31 PARENT COMPANY

ADIB (UK) Ltd is wholly owned by Abu Dhabi Islamic Bank PJSC, a bank incorporated in UAE and quoted on the UAE Stock Exchange.

Copies of the Group accounts of the Abu Dhabi Islamic Bank PJSC can be obtained from:

www.adib.ae/financial-results

Abu Dhabi Islamic Bank PJSC
P.O. Box 313
Abu Dhabi
United Arab Emirates

32 EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events.

33 PRA PILLAR 3 DISCLOSURES

ADIB (UK) Pillar 3 Disclosures can be found at the following web address: www.adib.co.uk

34 COUNTRY BY COUNTRY REPORTING

Capital Requirements Directive IV ("CRD IV") – country by country reporting

During 2015, the UK Government enacted legislation (contained in the Financial Services and Markets Act 2000 Statutory Instrument 3118) which requires CRD IV regulated institutions to publish the following information:

a) The name, nature of activities and geographical location of the institution and any subsidiaries and branches;
b) Turnover;
c) The average number of employees on a full time equivalent basis;
d) Profit or loss before tax;
e) Corporation tax paid; and
f) Public subsidies received.

The Bank falls within the scope of these regulations and accordingly the disclosures for the Year ended 31 December 2018 are set out below.

		UK	Total
a) Entity name:	ADIB (UK) Limited		
b) Nature of activities	Shari'a compliant bank		
c) Operating income (£)		5,251,448	5,251,448
d) Average number of employees		23	23
e) Loss before tax (£)		(2,140,074)	(2,140,074)
f) Corporation tax paid (£)		-	-
g) Public subsidies received (£)		-	-