Commercial Bank of Dubai PSC

Consolidated Financial Statements

31 December 2017

These Audited Consolidated Financial Statements are subject to Shareholders approval at the Annual General Meeting.

Commercial Bank of Dubai PSC

Consolidated Financial Statements
31 December 2017

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Ernst & Young
P.O. Box 9267
28th Floor, Al Saqr Business Tower
Sheikh Zayed Road
Dubai, United Arab Emirates

Tel: +971 4 332 4000
Fax: +971 4 332 4004
dubai@ae.ey.com
ey.com/mena

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF DUBAI PSC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Commercial Bank of Dubai PSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
COMMERCIAL BANK OF DUBAI PSC (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

(a) Impairment of loans and advances and Islamic financing

Impairment allowances represent management's best estimate of the losses incurred within the loans and advances and Islamic financing portfolio at the balance sheet date. The amount of impairment is estimated by management through the application of judgement and the use of subjective assumptions. The amount of impairment is determined at both a specific asset and collective level. The calculation of both individual and collective impairment allowances is inherently judgmental. There is a risk that the amount of impairment may be misstated.

As at 31 December 2017, the gross loans and advances and Islamic financing of the Group amounted to AED 50,185 million against which impairment allowances amounting to AED 2,910 million were maintained.

Due to the above factors, the significance of loans and advances and Islamic financing (representing 67.1% of total assets) and related estimation uncertainty, this is considered as a key audit matter.

The risks outlined above were addressed by us as follows:

- We assessed the design and implementation, and tested the operating effectiveness of key controls over management's processes in respect of the approval, recording and monitoring of loans and advances and Islamic financing, and evaluated the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments, and assessing the adequacy of impairment allowances for individually assessed loans and advances.
- For loan portfolios which are subject to individual assessment, the appropriateness of provisioning methodologies and policies were independently assessed for a sample of loans across the loan portfolio selected on the basis of a defined threshold and risk criteria. We assessed the levels of provisions based on discussion with the senior management and the detailed loan and counterparty information, which is maintained by management in the credit file.
- For collective impairment assessment, impairment is determined by analyzing the overdue status, considering the history of losses experienced on such loans adjusted for current market conditions. We have assessed the accuracy of key data from the portfolios, the provision calculations and critically assessed management estimates and assumptions used in determination of collective impairment allowance.
- Moreover, we have also assessed the adequacy and appropriateness of consolidated financial statement disclosures with respect to impairment of loans and advances and Islamic financing.

Refer the significant accounting policies note 3(a)(x) to the consolidated financial statements for the accounting policy relating to impairment of loans and advances and Islamic financing, note 3(aa) which contains the disclosure of significant accounting estimates relating to impairment against loans and advances and Islamic financing, note 7 which contains the disclosure of impairment against loans and advances and Islamic financing and note 33(b) which explains the impairment assessment methodology used by the Group.

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

(b) Impairment of investment properties

The Group's accounting policy is to state its investment properties at cost less accumulated depreciation and accumulated impairment losses. The fair value of investment properties as at the reporting date has been assessed internally by management and/or through third party valuations.

The valuation of investment properties involves significant estimation and assumptions. Any variation in the estimation or assumptions used for the valuation could have a material impact on the consolidated financial statements of the Group. Due to significant estimation involved, this has been considered as a key audit matter.

We assessed the assumptions used by management and third party valuers for appropriateness. This involved using our internal specialists to review the basis of valuation for selected investment properties to assess whether the valuation approach and methods used are in accordance with established standards for valuation of properties and suitable for use in determining fair value for the purpose of impairment loss and disclosure of fair value in the consolidated financial statements.

Refer the significant accounting policies note 3(f) to the consolidated financial statements for the accounting policy relating to investment properties, note 3(aa) which contains the disclosure of significant accounting estimates relating to impairment of investment properties and note 10 which contains the disclosure of impairment of investment properties.

Other Information included in the Bank's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Bank's 2017 Annual Report other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to receive the remaining sections of the Bank's 2017 Annual Report after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Report on the audit of the consolidated financial statements (continued)

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS and in compliance with the applicable provisions of the Bank's Articles of Association and the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
COMMERCIAL BANK OF DUBAI PSC (continued)

Report on the audit of the consolidated financial statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF DUBAI PSC (continued)

Report on other legal and regulatory requirements

Further, as required by UAE Federal Law No. (2) of 2015, we report that:

(i) the Group has maintained proper books of account;

(ii) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

(iii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Articles of Association and the UAE Federal Law No. (2) of 2015;

(iv) the consolidated financial information included in the Directors' report is consistent with the books of account of the Group;

(v) investments in shares and stocks are included in note 8 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2017;

(vi) note 31 reflects the disclosures relating to related party transactions and the terms under which they were conducted;

(vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2017, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2017; and

(viii) note 23 reflects the social contributions made during the year.

For Ernst & Young

Signed by:
Joseph Alexander Murphy
Partner
Registration number: 492

22 February 2018

Dubai, United Arab Emirates

Commercial Bank of Dubai PSC

Consolidated statement of financial position

As at 31 December 2017

	Note	2017 AED'000	2016 AED'000
ASSETS			
Cash and balances with Central Bank	*5*	**6,808,539**	6,712,466
Due from banks	*6*	**2,834,710**	3,724,254
Loans and advances and Islamic financing, net	*7*	**47,275,725**	41,962,538
Investment securities	*8*	**7,077,080**	7,418,277
Investment in an associate	*9*	**81,053**	77,768
Investment properties	*10*	**194,980**	232,923
Property and equipment	*11*	**383,704**	355,211
Bankers acceptances		**5,121,186**	3,056,956
Other assets	*12*	**637,080**	539,383
TOTAL ASSETS		**70,414,057**	64,079,776
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	*13*	**779,823**	1,560,148
Customer deposits and Islamic customer deposits	*14*	**48,411,192**	43,773,824
Notes and medium term borrowings	*15*	**6,089,663**	6,080,537
Due for trade acceptances		**5,121,186**	3,056,956
Other liabilities	*16*	**931,438**	928,688
TOTAL LIABILITIES		**61,333,302**	55,400,153
EQUITY			
Share capital	*17*	**2,802,734**	2,802,734
Statutory reserve	*17*	**1,401,367**	1,401,367
Capital reserve	*17*	**38,638**	38,638
General reserve	*17*	**1,328,025**	1,328,025
Fair value reserve	*17*	**(10,956)**	18,014
Retained earnings		**3,520,947**	3,090,845
TOTAL EQUITY		**9,080,755**	8,679,623
TOTAL LIABILITIES AND EQUITY		**70,414,057**	64,079,776

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 7 February 2018.

The attached notes on pages 12 to 75 form part of these consolidated financial statements.

Mr. Saeed Ahmed Ghobash
Chairman

Dr. Bernd van Linder
Chief Executive Officer

The report of the Auditors' is set out on pages 1 to 6.

Commercial Bank of Dubai PSC

Consolidated income statement

For the year ended 31 December 2017

	Note	2017 AED'000	2016 AED'000
Interest income and income from Islamic financing	*18*	**2,514,762**	2,287,803
Interest expense and distributions to Islamic depositors	*19*	**(694,038)**	(562,650)
Net interest income and net income from Islamic financing		**1,820,724**	1,725,153
Net fees and commission income	*20*	**564,590**	495,262
Net gains from foreign exchange and derivatives		**119,368**	134,347
Net gains from investments at fair value through profit or loss - held for trading	*21*	**5,248**	924
Net gains from sale of available-for-sale investments		**18,482**	57,470
Share of profit of an associate	*9*	**6,750**	3,408
Dividend income	*22*	**61,013**	7,449
Other income		**46,251**	38,025
Total operating income		**2,642,426**	2,462,038
Impairment allowances on loans and advances and Islamic financing	*7*	**(799,179)**	(683,311)
Recoveries		**112,159**	115,214
Impairment allowance on investments securities	*8*	**(2,255)**	(8,226)
Impairment allowance on investment property	*10*	**(27,835)**	-
Impairment allowance on other assets	*10*	**(22,730)**	(12,120)
Total net income		**1,902,586**	1,873,595
Staff and other expenses	*23*	**(844,619)**	(817,393)
Depreciation and amortisation	*10,11*	**(56,049)**	(53,137)
Total operating expenses		**(900,668)**	(870,530)
Net profit for the year		**1,001,918**	1,003,065
Basic and diluted earnings per share	*25*	**AED 0.36**	AED 0.36

The attached notes on pages 12 to 75 form part of these consolidated financial statements.

Appropriations have been reflected in the consolidated statement of changes in equity.

The report of the Auditors' is set out on pages 1 to 6.

Commercial Bank of Dubai PSC

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	2017 AED'000	2016 AED'000
Net profit for the year	**1,001,918**	1,003,065
Items that may not be reclassified subsequently to income statement:		
Actuarial gains on retirement benefits obligations	**6,243**	-
Items that may be subsequently reclassified subsequently to income statement:		
Other comprehensive income:		
Changes in fair value of effective portion of cash flow hedge	**(12,722)**	14,445
Changes in available-for-sale (AFS) investments:		
Realised gains on sale of AFS investments	**(18,482)**	(57,470)
Revaluation of AFS investments (net of impairment)	**(4,009)**	67,333
Net change in AFS investments	**(22,491)**	9,863
Other comprehensive (loss) / income for the year	**(28,970)**	24,308
Total comprehensive income for the year	**972,948**	1,027,373

The attached notes on pages 12 to 75 form part of these consolidated financial statements.

The report of the Auditors' is set out on pages 1 to 6.

Commercial Bank of Dubai PSC

Consolidated statement of changes in equity

For the year ended 31 December 2017

	Share capital AED'000	Statutory reserve AED'000	Capital reserve AED'000	General reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2016	2,802,734	1,401,367	38,638	1,227,718	(6,294)	2,764,641	8,228,804
Transactions with shareholders, recorded directly in equity							
Cash dividend paid for 2015 (20%)	-	-	-	-	-	(560,547)	(560,547)
Others (note 9)	-	-	-	-	-	(4,807)	(4,807)
Share of Directors' remuneration of an associate (note 9)	-	-	-	-	-	(200)	(200)
Comprehensive income							
Net profit for the year	-	-	-	-	-	1,003,065	1,003,065
Other comprehensive income for the year	-	-	-	-	24,308	-	24,308
Total comprehensive income	-	-	-	-	24,308	1,003,065	1,027,373
Directors' remuneration paid for 2015	-	-	-	-	-	(11,000)	(11,000)
Transfer to General reserve	-	-	-	100,307	-	(100,307)	-
At 31 December 2016	2,802,734	1,401,367	38,638	1,328,025	18,014	3,090,845	8,679,623
Transactions with shareholders, recorded directly in equity							
Cash dividend paid for 2016 (20%)	-	-	-	-	-	(560,547)	(560,547)
Share of Directors' remuneration of an associate (note 9)	-	-	-	-	-	(269)	(269)
Comprehensive income							
Net profit for the year	-	-	-	-	-	1,001,918	1,001,918
Other comprehensive loss for the year	-	-	-	-	(28,970)	-	(28,970)
Total comprehensive income	-	-	-	-	(28,970)	1,001,918	972,948
Directors' remuneration paid for 2016	-	-	-	-	-	(11,000)	(11,000)
Transfer to General reserve	-	-	-		-	-	-
At 31 December 2017	2,802,734	1,401,367	38,638	1,328,025	(10,956)	3,520,947	9,080,755

The attached notes on pages 12 to 75 form part of these consolidated financial statements.
The report of the Auditors' is set out on pages 1 to 6.

Commercial Bank of Dubai PSC

Consolidated statement of cash flows

For the year ended 31 December 2017

	Note	2017 AED'000	2016 AED'000
OPERATING ACTIVITIES			
Net profit for the year		**1,001,918**	1,003,065
Adjustments for:			
Depreciation and amortisation	*10, 11*	**56,049**	53,137
(Gains) / loss on disposal of investment properties and property and equipment		**(3,817)**	444
Dividend income	*22*	**(61,013)**	(7,449)
Amortisation of premium / discounts on investments		**54,086**	67,002
Net unrealised losses on investments at fair value through profit or loss - held for trading		**268**	-
Forex translation (income) / loss		**(13,611)**	13,931
Realised gains on sale of investments		**(23,998)**	(58,394)
Net unrealised losses / (income) on derivatives		**7,239**	(1,183)
Impairment of AFS Investment	*8*	**2,255**	8,226
Impairment allowance against investment properties	*10*	**27,835**	-
Amortisation of transaction cost on notes and medium term borrowings		**9,126**	11,069
		1,056,337	1,089,848
Increase in statutory reserve with the Central Bank		**(143,997)**	(238,877)
(Increase) / decrease in negotiable Central Bank certificate of deposits with original maturity of more than three months		**(2,300,000)**	300,000
Decrease / (increase) in due from banks with original maturity of more than three months		**373,512**	(177,773)
Increase in loans and advances and Islamic financing, net		**(5,313,187)**	(2,941,717)
Increase in other assets		**(104,232)**	(76,088)
Increase in customer deposits and Islamic customer deposits		**4,637,368**	3,299,048
(Decrease) / increase in other liabilities		**(15,796)**	228,685
Decrease in due to banks with original maturity of more than three months		**(3,080)**	(15,285)
Directors' remuneration paid		**(11,000)**	(11,000)
Net cash flow (used in) / from operating activities		**(1,824,075)**	1,456,841
INVESTING ACTIVITIES			
Purchase of investments		**(5,919,555)**	(5,549,714)
Purchase of property and equipment	*11*	**(75,744)**	(67,112)
Dividend income	*22*	**61,013**	7,449
Proceeds from sale of investments		**6,230,624**	4,732,818
Share of profit of associate	*9*	**(6,750)**	(3,408)
Dividend from an associate	*9*	**3,196**	2,662
Proceeds from sale of Investment properties and property and equipment		**5,127**	554
Net cash flow from / (used in) investing activities		**297,911**	(876,751)
FINANCING ACTIVITIES			
Notes and medium term borrowings		**-**	576,774
Dividend paid		**(560,547)**	(560,547)
Net cash flow (used in) / from financing activities		**(560,547)**	16,227
Net (decrease) / increase in cash and cash equivalents		**(2,086,711)**	596,317
Cash and cash equivalents at 1 January		**5,558,692**	4,962,375
Cash and cash equivalents at 31 December	*26*	**3,471,981**	5,558,692
Supplemental disclosure:			
Interest income and income from Islamic financing received		**2,469,190**	2,248,981
Interest expense and distributions to Islamic depositors paid		**600,741**	517,159

The attached notes on pages 12 to 75 form part of these consolidated financial statements.
The report of the Auditors' is set out on pages 1 to 6.

1 LEGAL STATUS AND ACTIVITIES

Commercial Bank of Dubai PSC ("the Bank") was incorporated in Dubai, United Arab Emirates (U.A.E.) in 1969 and is registered as a Public Shareholding Company (PSC) in accordance with Federal Law No. 2 of 2015. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the Federal Law No. 8 of 1984. In order to comply with the new Commercial Companies Law, the Bank held its General Assembly meeting on 26 June 2016 to amend its articles of association. The amendment was approved by the regulatory authority during the three month period ended 31 March 2017 and was adopted by the bank. The Bank is listed on the Dubai Financial Market. The Bank's principal activity is commercial banking.

The consolidated financial statements of the Group for the year ended 31 December 2017 comprise the results of the Bank, its wholly owned subsidiaries (together referred to as "the Group") and the Group's interest in an associate.

Details about subsidiaries and an associate:

a) CBD Financial Services LLC, is registered as a limited liability company in accordance with Federal Law No. 2 of 2015 in Dubai, United Arab Emirates. The Bank holds a 100% interest. Its principal activity is broking for local shares and bonds.

b) Attijari Properties LLC, is registered as a limited liability company in accordance with Federal Law No. 2 of 2015 in Dubai, United Arab Emirates. The Bank holds a 100% interest. Its principal activity is self-owned property management services and buying & selling of real estate.

c) CBD (Cayman) Limited is a special purpose entity (SPE) registered in British Virgin Islands. The SPE has been established for any future issuance of debt securities. The SPE did not have any activities during the year.

d) CBD (Cayman II) Limited, which is a special purpose entity (SPE) registered in British Virgin Island. The SPE has been established to transact and negotiate derivatives agreements.

e) National General Insurance Co. (PSC) is an associate of the Bank and is listed on the Dubai Financial Market. It underwrites all classes of life and general insurance business as well as certain reinsurance business. The Bank holds 17.8% interest in the associate. The management believes that it has significant influence on the associate by virtue of having representation on the board of directors of the associate.

The registered address of the Bank is Al Ittihad Street, P.O. Box 2668, Dubai, United Arab Emirates.

2 BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the U.A.E.

Along with these consolidated financial statements, the Group has presented Basel III Pillar 3 disclosures in accordance with the guidelines issued by the Central Bank of the UAE. The application of Basel III Pillar 3 guidelines has impacted the type and amount of disclosures made in these consolidated financial statements, but has no impact on the reported profits or financial position of the Group. In accordance with the requirements of Basel III, the Group has provided full comparative information.

As required by the UAE Securities and Commodities Authority (SCA) notification number 85/2009 dated January 6, 2009, the Group's exposure in cash and advances with Central Bank of the UAE, Due from Banks and Investment Securities outside the UAE have been presented under the respective notes.

2 BASIS OF PREPARATION (continued)

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments classified as fair value through profit or loss, held for trading and available for sale are measured at fair value;
- Recognised assets and liabilities that are hedged item in a fair value hedge transaction are measured at fair value in respect of the risk that is hedged.

c) Functional and presentation currency

The consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Bank's functional currency, rounded to the nearest thousand unless otherwise stated.

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity are disclosed in Note 3 (z).

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, which it controls, as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements of the Group from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) is attributed to the equity holders of the parent of the Group and non-controlling interest. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2 BASIS OF PREPARATION (continued)

e) Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the cumulative translation differences recorded in equity
- Derecognises the carrying amount of any non-controlling interest
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in consolidated income statement.
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(i) *Subsidiary*

A subsidiary is an entity that is controlled by the Bank. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

(ii) *Associate*

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated income statement.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profit or loss of an associate'.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated income statement.

2 BASIS OF PREPARATION (continued)

e) Basis of consolidation (continued)

(iii) Transactions eliminated on consolidation

Intra-group balances and income and expenses (except for foreign currency transactions gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3 SIGNIFICANT ACCOUNTING POLICIES

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

a) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset for the Group and a financial liability or equity instrument for another party or vice versa. The Group classifies its financial assets at initial recognition in the following categories:

(i) Classification

- Financial assets at fair value through profit or loss (FVPL): This category has the following two sub-categories:

  Financial assets held for trading

  Financial assets held for trading are those that are acquired principally for the purpose of sale in the near term. They are recorded at fair value. Fair value changes are recognised in consolidated income statement.

  Designated to be fair valued through profit or loss at inception

  The Group designates financial assets at fair value through profit or loss in the following circumstances:
  - The assets are managed, evaluated and reported internally on a fair value basis.
  - The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
  - The asset contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

- Loans and advances: Loans and advances are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. These arise when the Group provides money directly to the borrower with no intention of trading the receivable.

- Held-to-maturity (HTM): Investments classified as held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention of and the ability to hold to maturity. HTM assets are carried at amortized cost less impairment loss if any.

  Sale of HTM assets is allowed only under the following circumstances:
  - The investment is close enough to maturity as to have no impact on fair value;
  - The principal is substantially received;
  - Isolated events beyond the Group's control;
  - Significant credit deterioration;
  - Major business combination or disposal; or
  - Increase in regulatory capital requirements.

- Available-for-sale (AFS): Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or not classified as (i) financial assets at fair value through profit or loss, (ii) loans and advances or (iii) held-to-maturity investments. AFS assets are carried at fair value, with fair value changes recognised in other comprehensive income (OCI). These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(ii) *Initial recognition*

Purchases and sales of investment securities are recognised on the trade date which is the date on which the Group commits to purchase or sell the securities. Loans and advances are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs, which approximates to its cost, for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value, which approximates to its cost.

(iii) *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all the risks and rewards of ownership. A financial liability is derecognised when its contractual obligation is discharged, cancelled or expired.

(iv) *Subsequent measurement*

Financial assets available-for-sale and at fair value through profit or loss are subsequently carried at fair value. Financial assets not carried at fair value are carried at amortised cost using the effective interest method, less impairment allowances.

(v) *Embedded derivatives*

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement.

(vi) *Gains and losses on subsequent measurement*

Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss category are included in the consolidated income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income (OCI), until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in OCI is recognised in the consolidated income statement.

In cases where available-for-sale investments with a fixed maturity are reclassified as held-to-maturity investments, the fair value gains or losses until the date of the reclassification are held in OCI and amortised over the remaining life of the held-to-maturity investments using the effective interest rate method.

(vii) *Fair value measurement principles*

The Group measures financial instruments, such as derivatives and investments in equity and certain fixed income instruments, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(viii) Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The hierarchy used by the Group is set out in notes 4.2.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for sale in discontinued operation.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(ix) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the net carrying amount of the financial asset or financial liability.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(x) Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level.

Individually assessed loans

At each reporting date, the Group assesses on a case-by-case basis whether there is any objective evidence that a loan is impaired. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. This procedure is applied to all accounts that are considered individually significant.

In determining impairment losses on these loans, the following factors are considered:

- the Group's aggregate exposure to the customer;
- the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding; and
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not local currency.
- When available, the secondary market price of debt.

Impairment losses are recognised in consolidated income statement and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Collectively assessed loans

Impairment is determined on a collective basis in two different scenarios:

- for loans subject to individual assessment to cover losses which have been incurred but have not yet been identified; and
- for homogeneous groups of loans that are not considered individually significant.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(x) Identification and measurement of impairment (continued)

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been identified (performing loans) are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss.

This arises from individual loan impairment at the reporting date which will only be specifically identified in the future.

The collective impairment loss is determined after taking into account:

- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate specific allowance against the individual loan; and
- management's judgment as to whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by the management for each portfolio grouping.

Homogeneous groups of loans

For homogeneous groups of loans that are not considered individually significant, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment on investments classified as available-for-sale

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in OCI to consolidated income statement as a recycle adjustment. The cumulative loss that is recycled from OCI to consolidated income statement is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in consolidated income statement. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated income statement, the impairment loss is reversed through consolidated income statement to the extent of amount earlier recognised as impairment loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the consolidated income statement and is recognised directly in other comprehensive income.

Impairment on investments classified as associates

Management reviews its share of investments in associates to assess impairment on a regular basis. In determining the assessment, management compares the recoverable amount with the carrying value of the investment. Estimating recoverable amount using value in use requires the Group to make an estimate of the expected future cash flows from the associates and choosing a suitable discount rate in order to calculate the present value of those cash flows.

b) Derivative financial instruments

(i) Classification

The Group enters into derivative financial instruments including forwards, futures, swaps and options in the foreign exchange and capital markets. Derivative financial instruments, that do not qualify for hedge accounting are classified as "FVPL – financial assets held for trading" financial instruments.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Derivative financial instruments (continued)

(ii) Initial and subsequent measurement

In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to initial recognition, derivative financial instruments are stated at fair values. Fair values are generally obtained by reference to quoted market prices in active markets, or by using valuation techniques when an active market does not exist.

The positive mark to market values (unrealised gains) of derivative financial instruments is included in other assets. While, the negative mark to market values (unrealised losses) of derivative financial instruments is included in other liabilities.

(iii) Gains and losses on subsequent measurement

The gains or losses from derivative financial instruments classified as held for trading are taken to the consolidated income statement.

c) Hedging instruments

As part of its asset and liability management, the Group uses derivatives for hedging purpose.

When derivatives are designated as hedges, the Group classifies them as either:

- fair value hedges which hedge the change in the fair value of recognised assets or liabilities; or
- cash flow hedges which hedge the exposure to variability in highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction.

Hedge accounting is applied to derivatives designated as hedging instruments in fair value or cash flow hedge provided certain criteria are met.

Hedge accounting

(i) Hedge documentation

At the inception of the hedge, formal documentation of the hedge relationship must be established. The hedge documentation prepared at the inception of the hedge must include a description of the following:

- The Group's risk management objective and strategy for undertaking the hedge;
- The nature of risk being hedged;
- Clear identification of the hedged item and the hedging instrument; and
- How the Group will assess the effectiveness of the hedging relationship on an ongoing basis.

(ii) Hedge effectiveness testing

The hedge is regarded as highly effective if both of the following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value or cash flows of the hedging instruments with corresponding changes in the hedged risk and should be reliably measurable; and
- The actual results of the hedge effectiveness testing are within a range of 80 to 125 percent.

In case of a cash flow hedge, prospective hedge effectiveness is assessed by matching the critical terms of hedging instruments and hedged items.

(iii) Fair value hedge

The changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments is recognised in the consolidated income statement.

(iv) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Hedging instruments (continued)

(v) Discontinuance of hedge accounting

The hedge accounting is discontinued when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. At that point of time, any cumulative gain or loss on the hedging instrument that has been recognised in OCI remains in other comprehensive income until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

(vi) Hedges that do not qualify for hedge accounting

For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated income statement for the period.

d) Due from banks

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment, if any.

e) Loans and advances and Islamic financing

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Group chooses to carry the loans and advances at fair value through profit or loss.

In addition to conventional banking products, the Group offers its customers certain Islamic financing products, which are approved by Sharia'a Supervisory Board. Islamic Financing consists of the following:

Murabaha

An agreement whereby the Group sells to a customer, commodity or asset (subject asset), which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the subject asset and an agreed profit margin. Income is recognised on an accrual basis adjusted by actual income when received.

Ijara

Ijara refers to lease of the asset, which the Group (Lessor) constructs or purchases as per customer (Lessee) request based on the promise to lease the asset for a fixed term against certain rent installment. Ijara can end by transferring the ownership of the asset to the lessee in case of Ijara Muntahia Bittamleek.

Musharaka

An agreement whereby the Group and a customer contribute to a certain enterprise according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

Islamic financing products are initially recognised at fair value and subsequently measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Investment properties carried at cost and held for sale

The Group holds certain properties for its own use as well as to lease out. The leased out or intended to lease out components have been classified as investment properties. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less any accumulated depreciation and accumulated impairment losses.

Depreciation is charged using straight line method over the useful life of the asset. Estimated useful life of buildings is 20 to 30 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement under 'other income' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease of another party or ending of construction or development.

Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner-occupation.

Non current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses except for granted land, which is stated at the market value at the date of grant.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing an item of property and equipment is recognised in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The day-to-day servicing expenses of property and equipment are recognised in the consolidated income statement as incurred.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment. These are included in the consolidated income statement.

Property and equipment is impaired if the carrying amount of the asset or its cash generating unit (CGU) exceed its recoverable amount. The impairment loss is recognised in the consolidated income statement.

The cost of all property and equipment other than freehold land and capital work in progress is depreciated using the straight-line method over the following estimated useful lives:

Buildings	20 to 30 years
Leasehold improvements	5 years
Furniture, equipment and vehicles	3 to 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and prospectively adjusted if appropriate.

Capital work in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated in accordance with the Group's policies.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Due to banks, Notes and medium term borrowing

Amounts due to banks, notes and medium term borrowing are initially measured at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest method.

i) Repurchase agreement

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date the agreement is accounted for as a term borrowing depending on period of the agreement, and the underlying asset continues to be recognised in the Group's financial statement.

j) Customer deposits and Islamic Customer deposits

Customer deposits are initially recognised at fair value, being the fair value of the consideration received. After initial recognition, all deposits are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs that are directly attributable to the acquisition or receipt of customer deposit.

The Islamic customer deposits are received by entering into following kinds of agreements:

Mudaraba

An agreement between the Group and a third party whereby one party would provide a certain amount of funds which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala

An agreement between Group and third party whereby one party (Muwakil) provides certain amount of funds which the other party (Wakil) would invest according to the terms and conditions of Wakala in return for a certain fee. The Wakil is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Islamic customer deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit method.

k) Provisions

A provision is recognised if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

l) Employees' terminal benefits and long-term incentive arrangements

Provision is made for amounts payable under the UAE Federal Labour Law applicable to non UAE nationals' accumulated periods of service at the reporting date. The Group pays its contributions in respect of UAE nationals and GCC citizens under the UAE Pension and Social Security Law.

The present value of the obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions which include but are not limited to discount rate. Any actuarial gains or losses are recorded through other comprehensive income.

Effective from 1 January 2007, the Group introduced a long term incentive plan ("the plan"). Under this plan certain key employees are eligible for an incentive at the offering date contingent upon the Group's performance up to an award date. The award is the percentage of the actual salary of the eligible key employees. The salary includes the basic salary, allowance, national allowance and cost of living allowance as at the effective date. The obligation towards the plan is accrued in the period when the key employees are eligible for such awards in accordance with the plan.

m) Share capital

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

n) Dividend on ordinary shares

Dividends payable on ordinary shares are recognised as a liability in the period in which they are approved by the Bank's shareholders.

o) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Group has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or of gains and losses arising from a group of similar transactions such as in the Group's trading activity.

p) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and balances with the Central Bank (excluding statutory reserve), and amounts due from and due to banks with original maturity less than three months. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

q) Revenue recognition

(i) Interest income and expense

Interest income and expense for all interest bearing financial instruments except for those classified as held for trading or designated at fair value through profit or loss, are recognised in 'interest income' and 'interest expense' in the consolidated income statement on an accrual basis using the effective interest rates of the financial assets or financial liabilities to which they relate. Interest income and expense for financial instruments classified as held for trading or designated at fair value through profit or loss is recognised as trading income.

The effective interest rate is the rate that discounts estimated future cash receipts and payments earned or paid on a financial asset or a liability through its expected life or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

When calculating effective interest rates, the Group estimates cash flows considering all contractual terms of the financial instruments, but not future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

(ii) Income from Islamic financing and distributions to depositors

Income from Islamic financing is recognised in the consolidated income statement using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Distribution to depositors (Islamic products) is calculated according to the Group's standard procedures and is approved by the Group's Sharia'a Supervisory Board.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Revenue recognition (continued)

(iii) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of effective interest rate.

Other fees and commission income earned from the provision of services are recognised as revenue, as and when the services are rendered or on a time proportion basis as applicable.

(iv) Income from investments

Net income from investments at fair value through profit or loss which arises from gains and losses resulting from disposal, and from the fair valuation of such investments, are recognised when they occur. Gains resulting from disposal of AFS investments are recognised in profit or loss when they occur. Gains resulting from valuation are recognised in OCI until disposal at which time it will be recycled to profit or loss.

(v) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease.

(vi) Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

(vii) Share of profit from associate

Share of profit from associate reflects the Group's share of the results of operations of the associate.

(viii) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to AED at the foreign exchange rates ruling at the dates that the fair values were determined.

Forward foreign exchange contracts are translated into AED at market rates of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the consolidated income statement.

r) Leasing

The Group has entered into leasing arrangements which based on the evaluation of the terms and condition of the leasing arrangement has been classified as operating lease. Leases are classified as operating leases if risk and reward incidental to ownership of the leased asset lie with lessor.

Group as lessor

Asset subjected to operating lease are presented in the consolidated statement of financial position according to the nature of the asset. Income from operating leases are recognised in the consolidated income statement on straight line basis over the lease term.

Group as lessee

Lease payments under operating leases are recognised as expense on a straight line basis over the lease term.

s) Fiduciary activities

The Group provides wealth management solutions to manage client assets. These assets are held in the Group's custody and are invested on behalf of the client in third party funds, and other securities like bonds and sukuk.

These assets and income arising from these assets are not included in the Group's consolidated financial statements as the risk and rewards incidental to ownership of these assets lie with the client.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated income statement, and the best estimate of amount required to settle any financial obligation arising as a result of the guarantee.

u) Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

Acceptances have been considered within the scope of IAS 39 - Financial Instruments: Recognition and Measurement are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

v) Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, the underlying amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

I. Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group and potential future fluctuations. The majority of the fair value of favorable contracts (and therefore credit risk) is exposure to financial institutions.

II. Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales and position coverage. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading are conducted under Board approved limits.

Derivatives are initially recognised in the consolidated financial statements at its fair value, being the premium received / paid. Subsequent to initial recognition derivatives (held for trading) are measured at fair value with fair value changes recognised in the consolidated income statement.

w) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Business Committee of the Group to make decisions about resources allocated to the segment and assess its performance, and for which distinct financial information is available. Segment results that are reported to the Business Committee of the Group include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

y) Related Parties

An entity is considered related party of the Group if:

a) A person or a close member of that person's family is related to the Group if that person:
   i. has control or joint control of the Group;
   ii. has significant influence over the Group; or
   iii. is a member of the key management personnel of the Group.

b) An entity is related to a Group if any of the following conditions applies:
   i. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v. The entity is controlled or jointly controlled by a person identified in (a).
   vi. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Other than the transactions disclosed in note 31, the Group enters into transactions with other Government entities. In accordance with the exemption available in the revised IAS 24, these transactions with such related Government entities are not collectively or individually significant and have not been disclosed in note 31.

z) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of their non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in consolidated income statement.

aa) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may therefore differ, resulting in future changes in these estimates.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) Use of estimates and judgments (continued)

In particular, considerable management judgment is required in respect of the following issues:

Impairment losses on loans and advances and Islamic financing

The Group reviews its loan portfolios to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows (excluding future expected credit losses that have not yet been incurred). The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity investments

The Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not amortized cost.

Impairment of available-for-sale investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology or operational and financing cash flows.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by other available fair value indicators.

Going concern

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

ab) Standards and interpretation

Issued and effective for accounting periods beginning on 1 January 2017

IAS 7 – Statement of cash flows

The amendments issued are as follows:

- introduce additional disclosure requirements intended to address investors' concerns as currently they are not able to understand the management of an entity's financing activities;
- require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes;
- do not prescribe a specific format for disclosures but indicates that we can fulfil the requirement by providing a reconciliation between opening and closing balances for liabilities arising from financing activities;
- are also applicable to financial assets that hedge liabilities arising from financing activities.

Issued but not yet effective for accounting periods beginning on or after 1 January 2018

IFRS 9 – Financial instruments

In July 2014, IASB issued IFRS 9 Financial Instruments (IFRS 9), which replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 introduces new rules for financial instruments on classification and measurement, impairment (with a new expected credit loss impairment approach) and hedge accounting and is effective for annual periods beginning on or after 1 January 2018.

The Group does not expect to restate comparatives on initial application of IFRS 9 on 1 January 2018. Difference in carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognized in retained earnings and reserves as at 1 Jan 2018.

1. Classification and Measurement

For financial assets, IFRS 9 retains but simplifies the mixed measurement model. The standard requires the Group to establish following three primary measurement categories:

(i) amortised cost
(ii) fair value through other comprehensive income (OCI); and
(iii) fair value through profit and loss.

The basis of classification depends on the Group's business model and the contractual cash flow characteristics of a particular financial asset. The Group will measure financial assets at fair value through profit or loss (FVPL) unless they are classified either as measured at amortised cost or as measured at fair value through OCI (FVOCI) as described below.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial assets is measured at fair value through OCI (FVOCI) if it meets both of the following conditions:

- it is held within a business models whose objective is achieved by both collecting contractual cash flows and selling financial assets: and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduce an accounting mismatch that would otherwise arise.

Equity investments are measured at FVPL. However the Group may on initial recognition of an equity investment that is not held for trading, irrevocably elect to present subsequent changes in fair value in OCI, with no subsequent recycling to profit and loss, while recognizing dividend income in profit and loss. This election is made on an investment-by-investment basis.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

ab) Standards and interpretation (continued)

Issued but not yet effective for accounting periods beginning on or after 1 January 2018 (continued)

IFRS 9 – Financial instruments (continued)

2. Impairment

IFRS 9 introduces a single impairment model which will require the Group to recognise expected credit losses (ECL) based on unbiased forward-looking information for all financial assets including loan contracts and debt securities measured at amortised cost, or at FVOCI.

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 forecast of future economic conditions in the determination of significant increase in credit risk and measurement of ECL.

IFRS 9 requires the Group to determine whether the credit risk on a financial instrument has increased significantly since initial recognition by undertaking a quantitative and qualitative assessments.

With the exception of purchased or originated credit impaired financial assets, ECL is measured on the basis of the stage to which a financial asset belongs i.e. Stage 1, Stage 2 or Stage 3.

Stage 1

Financial instruments for which the credit risk has not increased significantly since initial recognition are classified in stage 1, IFRS 9 requires the recognition of 12 month ECL (the expected credit losses from default events that are expected within 12 months of reporting date) if credit risk has not significantly increased since initial recognition.

Stage 2

Financial instruments for which the Group estimates that the credit risk has increased significantly since initial recognition are classified in stage 2. This assessment is performed on both qualitative and quantitative basis. Quantitative assessments is based on change in rating grades between the origination date and reporting dates, determined for each customer and the respective facilities. Qualitative drivers are also established to determine significant increase in credit risk. Exposures which are more than 30 days past due are considered to have deteriorated significantly in credit quality and classified in stage 2. Exposures that demonstrate improvement in credit quality subsequent to being classified in stage 2 are considered for classification back into stage 1 once the management is satisfied that they no longer meet the criteria for significant increase in credit risk.

Stage 3

Financial assets are included in Stage 3 where the Group has identified an objective evidence that a financial asset is credit impaired. The criteria of such objective evidence is similar to the one being currently applied by the Group under the current IAS 39 impairment methodology. When forbearance results in the derecognition of the original loan, the new loan will be classified as originated credit-impaired. Other than originated credit-impaired loans, loans will be transferred from out of Stage 3 if they no longer meet the criteria of credit-impaired.

Assessment of Significant Increase in Credit Risk

Assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure. Thresholds are established for significant increases in credit risk based on movement in credit rating grades relative to initial recognition. Qualitative reviews are also performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.

Financial assets that has been 30 days past due are considered to have experienced a significant increase in credit risk.

Definition of default and credit impaired assets

The definition of default for the purpose of determining expected credit losses is aligned to the Regulatory Capital definition of default, which considers indicators that the debtor is unlikely to pay, includes exposures in forbearance and is no later than when the exposure is more than 90 days past due.

Credit impairment is expected to occur when the exposure has defaulted which is also anticipated to align to when an exposure is identified as individually impaired under the incurred loss model of IAS 39. Write-off polices are not expected to change from IAS 39.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

ab) Standards and interpretation (continued)

Issued but not yet effective for accounting periods beginning on or after 1 January 2018 (continued)

IFRS 9 – Financial instruments (continued)

Modelling techniques
The key inputs into the measurement of ECL are the term structures of the following variables:
• probability of default (PD);
• loss given default (LGD); and
• the exposure at default (EAD).

Measurement
The calculation of ECL is based on the estimates of risk parameters. The IFRS 9 ECL model builds on existing risk models, and includes forward-looking point in time information based on macroeconomic indicators. The expected loss parameters will be determined by using historical statistical relationships and macroeconomic predictions.
For stage 1 assets, a forward looking approach on a 12 month horizon will be applied.
For stage 2 assets, a lifetime view on the underlying parameters is taken. The Lifetime Expected Loss (LEL) is the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months.

3. Hedging

Hedge accounting under IFRS 9 affords greater flexibility to the type of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. The three types of hedge accounting mechanisms currently available under IAS 39 have been retained under the new hedge accounting requirements. Additionally, the hedge effectiveness test has been overhauled and replaced with the principle of economic relationship, while testing hedge effectiveness retrospectively is no longer required. IFRS 9 has also introduced enhanced disclosure requirements about the entity's risk management activities.

The Group, however, has chosen to continue to apply hedge accounting requirements in IAS 39 as per the hedge accounting transition requirements of IFRS 9.

Impact Assessment
For classification and measurement, the combined application of the contractual cash flow characteristics and business model tests as at January 1, 2018 is expected to result in certain differences in the classification of financial assets when compared to the Group's classification of financial assets under IAS 39. As per the assessment, these differences are not expected to have a material impact on the classification of Group's financial assets nor their carrying value.
The impact of adoption of IFRS 9 ECL requirements will result in a significant impact on the Group's financial statements. Impairment losses will increase and are likely to be more volatile on the back of macroeconomic predictions. Financial assets with high risk and long maturity profiles are expected to be subject to the biggest impact.
The transition impact will be recorded as an adjustment to the Group's opening retained earnings as at 1 January 2018 to reflect the application of the new requirements of IFRS 9. The estimated preliminary impact on implementation of impairment requirement by the Group is likely to be in range of 3.5%-5% of total equity as at 1 January 2018. The actual impact on adopting IFRS 9 on 1 January 2018 may change once Group finalizes its assumptions, judgements and estimation techniques and models are refined leading up to 31 March 2018 reporting.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

ab) Standards and interpretation (continued)

Issued but not yet effective for accounting periods beginning on or after 1 January 2018 (continued)

IFRS 15, 'Revenue from contracts with Customers'

This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18,'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The new standard will be effective for annual periods beginning on or after 1 January 2018.

Transfers of investment property – amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after 1 January 2018.

IFRS 16 – Leases

IFRS 16 requires lessee's to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied.

Impact of other accounting standards

The Group has assessed the impact of other standards (excluding IFRS 9), amendments to standards, revisions and interpretations. Based on the assessment, these standards (except for IFRS 16), amendments to standards, revisions and interpretations have no material impact on the consolidated financial statements of the Group as at the reporting date.

4 FINANCIAL ASSETS AND LIABILITIES

4.1 Financial assets and liabilities classification

The table below sets out the Group's assets and liabilities classification in accordance with the categories of financial instruments in IAS 39:

	Fair value through Profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale at fair value	Other amortised cost	Total carrying amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
2017						
Cash and balances with central bank	-	-	-	-	6,808,539	6,808,539
Due from banks	-	-	-	-	2,834,710	2,834,710
Loans and advances and Islamic financing, net	-	-	47,275,725	-	-	47,275,725
Investment securities	42,104	133,242	-	6,901,734	-	7,077,080
Bankers acceptances	-	-	-	-	5,121,186	5,121,186
Other assets	69,675	-	-	-	326,825	396,500
Total financial assets	111,779	133,242	47,275,725	6,901,734	15,091,260	69,513,740
Due to banks	-	-	-	-	779,823	779,823
Customers' deposits and Islamic customers' deposits	-	-	-	-	48,411,192	48,411,192
Notes and medium term borrowing	-	-	-	-	6,089,663	6,089,663
Due for trade acceptances	-	-	-	-	5,121,186	5,121,186
Other liabilities	73,984	-	-	-	740,665	814,649
Total financial liabilities	73,984	-	-	-	61,142,529	61,216,513
2016						
Cash and balances with central bank	-	-	-	-	6,712,466	6,712,466
Due from banks	-	-	-	-	3,724,254	3,724,254
Loans and advances and Islamic financing, net	-	-	41,962,538	-	-	41,962,538
Investment securities	-	388,293	-	7,029,984	-	7,418,277
Bankers acceptances	-	-	-	-	3,056,956	3,056,956
Other assets	77,330	-	-	-	285,460	362,790
Total financial assets	77,330	388,293	41,962,538	7,029,984	13,779,136	63,237,281
Due to banks	-	-	-	-	1,560,148	1,560,148
Customers' deposits and Islamic customers' deposits	-	-	-	-	43,773,824	43,773,824
Notes and medium term borrowing	-	-	-	-	6,080,537	6,080,537
Due for trade acceptances	-	-	-	-	3,056,956	3,056,956
Other liabilities	55,438	-	-	-	759,320	814,758
Total financial liabilities	55,438	-	-	-	55,230,785	55,286,223

The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different from their fair values.

4 FINANCIAL ASSETS AND LIABILITIES (continued)

4.2 Fair value measurement – Fair value hierarchy:

The below table, shows the fair value hierarchy of the financial assets and the financial liabilities:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000	Carrying value AED'000
2017					
Investments					
Equities	91,160	-	-	91,160	91,160
Fund of funds	-	15,155	-	15,155	15,155
Fixed and floating rate securities	6,970,723	-	-	6,970,723	6,970,765
Positive market value of forward foreign exchange contracts and other derivatives					
Held for trading	-	69,477	-	69,477	69,477
Held for fair value hedge	-	198	-	198	198
Held for cash flow hedge	-	-	-	-	-
Negative market value of forward foreign exchange contracts and other derivatives					
Held for trading	-	(59,936)	-	(59,936)	(59,936)
Held for fair value hedge	-	(2,022)	-	(2,022)	(2,022)
Held for cash flow hedge	-	(12,026)	-	(12,026)	(12,026)
Liabilities at amortized cost					
Notes and medium term borrowings	(3,352,090)	(2,789,067)	-	(6,141,157)	(6,089,663)
	3,709,793	(2,778,221)	-	931,572	983,108

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000	Carrying value AED'000
2016					
Investments					
Equities	144,931	-	-	144,931	144,931
Fund of funds	-	75,487	-	75,487	75,487
Fixed and floating rate securities	7,197,511	-	-	7,197,511	7,197,859
Positive market value of forward foreign exchange contracts and other derivatives					
Held for trading	-	59,191	-	59,191	59,191
Held for fair value hedge	-	16,092	-	16,092	16,092
Held for cash flow hedge	-	2,047	-	2,047	2,047
Negative market value of forward foreign exchange contracts and other derivatives					
Held for trading	-	(51,282)	-	(51,282)	(51,282)
Held for fair value hedge	-	(2,805)	-	(2,805)	(2,805)
Held for cash flow hedge	-	(1,351)	-	(1,351)	(1,351)
Liabilities at amortized cost					
Notes and medium term borrowings	(3,355,517)	(2,783,151)	-	(6,138,668)	(6,080,537)
	3,986,925	(2,685,772)	-	1,301,153	1,359,632

During the year there were no transfers between Level 1 and Level 2 of the fair value hierarchy above and no financial instruments were classified within level 3 of the fair value hierarchy at any time during the current or prior year. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the current or prior year.

5 CASH AND BALANCES WITH CENTRAL BANK

	2017 AED'000	2016 AED'000
Cash on hand	**509,915**	515,182
Balances with Central Bank U.A.E		
- Clearing account balances	**475,591**	718,248
- Statutory reserves	**3,023,033**	2,879,036
- Negotiable certificates of deposit	**2,800,000**	2,600,000
	6,808,539	6,712,466

Statutory reserves are not available for use in the Group's day to day operations and cannot be withdrawn without the approval of the Central Bank. The level of reserves required changes periodically in accordance with the directives of the Central Bank.

6 DUE FROM BANKS

	2017 AED'000	2016 AED'000
Current and demand deposits	**1,084,783**	718,858
Overnight, call and short notice	**1,597,865**	2,656,461
Loans to Banks	**152,062**	348,935
	2,834,710	3,724,254

The geographical concentration is disclosed in note 33b.

7 LOANS AND ADVANCES AND ISLAMIC FINANCING

The composition of the loans and advances and Islamic financing portfolio is as follows:

	2017 AED'000	2016 AED'000
Loans and advances		
Overdrafts	**4,659,635**	4,591,758
Loans	**35,277,114**	32,636,897
Advances against letters of credit and trust receipts	**1,473,914**	1,275,189
Bills discounted	**1,711,513**	1,437,892
Gross loans and advances	**43,122,176**	39,941,736
Islamic financing		
Murabaha and Tawaruq	**2,630,365**	2,173,745
Ijara	**4,314,252**	2,516,634
Others	**118,654**	481,723
Gross Islamic financing	**7,063,271**	5,172,102
Gross loans and advances and Islamic financing	**50,185,447**	45,113,838
Allowances for impairment losses	**(2,909,722)**	(3,151,300)
Net loans and advances and Islamic financing	**47,275,725**	41,962,538

The movements in allowances for impairment losses are as follows:

	Interest suspended AED'000	Specific provisions AED'000	Collective provisions AED'000	Total AED'000
Opening balance 1 January 2017	**530,661**	**1,849,309**	**771,330**	**3,151,300**
Interest not recognised / new provisions raised	**234,356**	**741,678**	**57,501**	**1,033,535**
Less:				
Written-off	**(210,291)**	**(966,073)**	-	**(1,176,364)**
Recoveries / reversal to income	**(6,221)**	**(92,528)**	-	**(98,749)**
Closing balance 31 December 2017	**548,505**	**1,532,386**	**828,831**	**2,909,722**

	Interest suspended AED'000	Specific provisions AED'000	Collective provisions AED'000	Total AED'000
Opening balance 1 January 2016	381,943	1,615,893	678,789	2,676,625
Interest not recognised / new provisions raised	291,039	590,770	92,541	974,350
Less:				
Written-off	(51,221)	(278,579)	-	(329,800)
Recoveries / reversal to income	(91,100)	(78,775)	-	(169,875)
Closing balance 31 December 2016	530,661	1,849,309	771,330	3,151,300

The economic sector composition of the loans and advances and Islamic financing is set out in note 33b.

During the year ended 31 December 2017, the Bank has received certain properties, having a fair value of AED 77.6 million, against partial settlement of a debt. The related properties are classified as 'held for sale' and have been transferred to 'other assets – properties acquired in settlement of debt' (note 12). The Group has hedged the fair value of certain fixed rate loans and advances and Islamic financing. The carrying value of these loans and advances and Islamic financing is AED 271 million (2016:AED 295 million). Net positive fair value of the hedged component is AED 1,824 thousand (2016: negative fair value of AED 108 thousand).

8 INVESTMENT SECURITIES

	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
2017				
Held for trading				
Fixed rate securities				
- Government	23,942	5,491	12,671	42,104
- Others	-	-	-	-
Available-for-sale				
Equities	91,160	-	-	91,160
Fund of funds	3,346	11,611	198	15,155
Fixed rate securities				
- Government	2,638,562	961,796	279,058	3,879,416
- Others	1,658,896	690,368	401,184	2,750,448
Floating rate non-government securities	138,383	8,809	18,363	165,555
Held to maturity				
Fixed rate non-government securities	114,807	-	18,435	133,242
Total investment securities	4,669,096	1,678,075	729,909	7,077,080
2016				
Held for trading				
Fixed rate securities				
- Government	-	-	-	-
- Others	-	-	-	-
Available-for-sale				
Equities	144,931	-	-	144,931
Fund of funds	-	11,701	63,786	75,487
Fixed rate securities				
- Government	2,316,693	749,208	249,688	3,315,589
- Others	1,774,259	1,136,540	349,113	3,259,912
Floating rate non-government securities	188,457	45,608	-	234,065
Held to maturity				
Fixed rate non-government securities	269,902	103,163	15,228	388,293
Total investment securities	4,694,242	2,046,220	677,815	7,418,277

Included in available-for-sale investment securities is an amount of AED 1,393 million (2016: AED 1,399.2 million), pledged under repurchase agreements with banks (note 15).

There are certain AFS securities which have a significant or prolonged decline in their market value as compared to their cost which resulted in an impairment loss of AED 2.3 million (2016: AED 8.2 million).

As at 31 December 2017, the fair value of HTM securities is AED 133.2 million (2016: AED 387.9 million). The fair value represents level 1 of the fair value hierarchy.

8 INVESTMENT SECURITIES (continued)

8.1 AFS debt securities

The below table shows the rating of debt securities:

	2017 AED'000	2016 AED'000
Rated Aaa to Aa3	**1,458,459**	1,204,304
Rated A1 to A3	**2,348,494**	2,385,142
Rated Baa1 to Baa3	**1,740,851**	2,214,364
Rated below Baa3 or Unrated - Government	**1,121,153**	1,240,688
Rated below Baa3 - others	**301,808**	153,361
	6,970,765	7,197,859

The above represents approved rating from External Credit Assessment Institutions (ECAI) as per Basel III Pillar 3 guidelines.

8.2 Fund of funds investments

This represents investments in global and regional asset management funds as a part of the Group's strategy of diversifying its holdings. These investments are carried at net assets value provided by the respective fund managers.

9 INVESTMENT IN AN ASSOCIATE

Equity accounting was applied using management information available at the time of the Board approval date and subsequent changes are not considered material. The following is the aggregated financial information of the associate:

	2017 AED'000	2016 AED'000
Assets	**1,262,344**	1,261,476
Liabilities	**805,613**	827,028
Revenue	**39,962**	26,761

	2017 AED'000	2016 AED'000
At 1 January	**77,768**	82,029
Share of profit of associate	**6,750**	3,408
Dividends received	**(3,196)**	(2,662)
Share of Directors' remuneration of associate	**(269)**	(200)
Others	**-**	(4,807)
At 31 December	**81,053**	77,768

Others represents Bank's share of the adjustments which were recognized by an associate due to early adoption of new financial regulations for insurance companies in 2015.

10 INVESTMENT PROPERTIES

The movement in investment properties during the year is as follows:

	2017 AED'000	2016 AED'000
Cost		
At 1 January	**345,252**	345,252
Additions	**-**	-
Disposals	**(6,569)**	-
At 31 December	**338,683**	345,252
Depreciation / Impairment		
At 1 January	**112,329**	102,412
Charge for the year	**9,547**	9,917
Disposals	**(6,008)**	-
Impairment	**27,835**	-
At 31 December	**143,703**	112,329
Net book value		
At 31 December	**194,980**	232,923

Investment properties comprises buildings. Rental income from investment properties leased under operating lease recorded in other income is AED 36.8 million (2016: AED 31.3 million).

During the year ended 31 December 2017, the Group has carried out external valuations of the investment properties. The valuations are carried out by professional valuers who holds recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuations were based on income (investment) method of valuation. To value the investment properties, the passing rental income and estimated market rental income are used. These are then adjusted for outgoings such as insurance and maintenance, to arrive at a net income level which is capitalised at a market capitalised rate, or discounted using a discounted cash flow approach at a market appropriate discount rate. Any significant movement in the assumptions used for the fair valuation of investment properties such as yield, rental growth, vacancy rate etc. is expected to result in significantly lower / higher fair value of these assets. Fair value of investment properties represents level 3 (note 4.2) of the fair value hierarchy. As a result of the above impairment exercise, the Group has recognised an impairment of AED 27.8 million (2016: AED nil), which has been charged to the consolidated income statement and is classified as 'impairment allowance on investment property'.

In June 2017, the Group classified investment properties at cost of AED 154.4 million to other assets as advised by Central Bank UAE. Impairment of AED 34.9 million (2016: AED 12.1 million) was also moved accordingly. Accordingly, comparative balances pertaining to such properties have also been reclassified to other assets. These properties were acquired in the settlement of debts in 2015 and 2016.

11 PROPERTY AND EQUIPMENT

	Freehold land and buildings AED'000	Leasehold improve-ments AED'000	Furniture, equipment & vehicles AED'000	Capital work in progress (CWIP) AED'000	Total AED'000
Cost					
At 1 January 2017	395,056	55,668	344,165	53,795	848,684
Additions during the year	14,094	-	8,018	53,632	75,744
Transfer from CWIP	-	12,172	40,044	(52,216)	-
Disposals	-	(5,038)	(27,390)	-	(32,428)
At 31 December 2017	409,150	62,802	364,837	55,211	892,000
Depreciation					
At 1 January 2017	158,404	37,634	297,435	-	493,473
Charge for the year	9,653	5,915	30,934	-	46,502
On disposals	-	(4,849)	(26,830)	-	(31,679)
At 31 December 2017	168,057	38,700	301,539	-	508,296
Net book values					
At 31 December 2017	241,093	24,102	63,298	55,211	383,704

	Freehold land and buildings AED'000	Leasehold improve-ments AED'000	Furniture, equipment & vehicles AED'000	Capital work in progress (CWIP) AED'000	Total AED'000
Cost					
At 1 January 2016	391,374	57,854	330,583	9,112	788,923
Additions during the year	3,682	2,935	2,849	57,646	67,112
Transfer from CWIP	-	-	12,673	(12,673)	-
Disposals	-	(5,121)	(1,940)	(290)	(7,351)
At 31 December 2016	395,056	55,668	344,165	53,795	848,684
Depreciation					
At 1 January 2016	148,003	36,663	271,940	-	456,606
Charge for the year	10,401	5,646	27,173	-	43,220
On disposals	-	(4,675)	(1,678)	-	(6,353)
At 31 December 2016	158,404	37,634	297,435	-	493,473
Net book values					
At 31 December 2016	236,652	18,034	46,730	53,795	355,211

The Group assessed whether there is an indication that an asset may be impaired and concluded that there was no indication of impairment.

Upto 31 December 2016, freehold land and buildings included the market value of a plot of land granted to the Group by the Government of Dubai in 1998 and was valued at market value on the date of grant (note 17). During the year ended 31 December 2017, the granted land has been converted to freehold. The related regulatory approvals have been obtained during the year ended 31 December 2017.

12 OTHER ASSETS

	2017	2016
	AED'000	AED'000
Interest receivable	**308,362**	262,790
Accounts receivable and prepayments	**53,569**	56,995
Property acquired in settlement of debt (note 10)	**205,474**	142,268
Positive mark to market value of derivatives (note 29)	**69,675**	77,330
	637,080	539,383

13 DUE TO BANKS

	2017	2016
	AED'000	AED'000
Current and demand deposits	**223,804**	495,615
Short term borrowings	**556,019**	1,064,533
	779,823	1,560,148

14 CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

Customer deposits	**2017**	2016
	AED'000	AED'000
Current and demand accounts	**15,255,996**	15,502,051
Savings accounts	**1,739,286**	1,686,496
Time deposits	**23,630,424**	17,842,136
	40,625,706	35,030,683

Islamic customer deposits	**2017**	2016
	AED'000	AED'000
Current and demand accounts	**1,574,694**	1,462,891
Mudaraba savings accounts	**615,517**	546,084
Investment and Wakala deposits	**5,595,275**	6,734,166
	7,785,486	8,743,141
Total customer deposits and Islamic customer deposits	**48,411,192**	43,773,824

By sector:	**2017**	2016
	AED'000	AED'000
Government	**11,852,186**	10,815,329
Corporate	**24,910,062**	21,960,612
Personal	**11,648,944**	10,997,883
	48,411,192	43,773,824

15 NOTES AND MEDIUM TERM BORROWINGS

		31 December 2016 AED'000	Cash flow Changes AED'000	Non cash flow Changes AED '000	31 December 2017 AED'000
Syndicated loan	15.1	1,641,103	-	**4,723**	**1,645,826**
Repurchase agreements - I	15.2	551,442	-	-	**551,442**
Repurchase agreements - II	15.2	591,799	-	-	**591,799**
Euro medium term notes - I	15.3	1,832,276	-	**3,100**	**1,835,376**
Euro medium term notes - II	15.3	1,463,917	-	**1,303**	**1,465,220**
Total		6,080,537	-	**9,126**	**6,089,663**

		31 December 2015 AED'000	Cash flow Changes AED'000	Non cash flow Changes AED '000	31 December 2016 AED'000
Syndicated loan	15.1	1,648,767	(14,143)	6,479	1,641,103
Repurchase agreements - I	15.2	551,442	-	-	551,442
Repurchase agreements - II	15.2	-	591,799	-	591,799
Euro medium term notes - I	15.3	1,828,982	-	3,294	1,832,276
Euro medium term notes - II	15.3	1,463,503	(882)	1,296	1,463,917
Total		5,492,694	576,774	11,069	6,080,537

15.1 *Syndicated loan*

In June 2016, the Group entered into a club deal of USD 450 million (AED 1,653 million) for a term of 3 years with an option to roll over on a quarterly or semi-annual basis. This replaced the syndicated loan arrangement of USD 450 million maturing in December 2016, which was prepaid in June 2016 and carried interest at the rate of 3 month LIBOR plus 125 basis points payable on a quarterly basis. The current arrangement carries interest at the rate of 3 month LIBOR plus 125 basis points payable on a quarterly basis.

15.2 *Repurchase agreements*

In July 2012, the Group entered into Repo transactions to obtain financing against the sale of certain debt securities, amounting to USD 150.1 million (AED 551.4 million) with arrangements to repurchase them at a fixed future date in July 2017. In June 2016 the arrangement of repurchase has been extended for additional five years till July 2022.
In June 2016, the Group entered into additional Repo transactions to obtain financing against the sale of certain debt securities, amounting to USD 161.1 million (AED 591.8 million) with arrangements to repurchase them at a fixed future date in June 2021.

As at 31 December 2017, the fair value of the debt securities, which have been pledged under these repurchase agreements with banks, amounts to AED 1,393 million (USD 379.3 million) (2016: AED 1,399.2 million (USD 380.9 million)) (note 8).

15.3 *Euro medium term notes*

In 2013, CBD activated its Euro Medium Term Note (EMTN) program. These notes can be issued by way of private or public placements and in each case on a syndicated or non-syndicated basis. These notes can be priced at fixed rate, floating rate or can be index linked. The maximum issuance under the program was USD 2 billion (AED 7.3 billion). At the Annual General Meeting (AGM) held on 28 February 2016 shareholders approved the increase of the program limit up to a total of USD 3 billion (AED 11 billion).

In May 2013, CBD issued USD 500 million (AED 1,836.5 million) of conventional bonds. These notes were priced at 3.375 per cent fixed rate and mature on 21 May 2018.

In November 2015, CBD issued USD 400 million (AED 1,469.2 million) of conventional bonds. These notes were priced at 4 per cent fixed rate and mature on 17 November 2020.

16 OTHER LIABILITIES

	2017 AED'000	2016 AED'000
Interest payable	**255,831**	162,534
Employees' terminal benefits	**61,305**	65,722
Accounts payable	**269,565**	316,366
Accrued expenses	**100,783**	90,212
Manager cheques	**108,465**	160,167
Unearned fee income and deferred credits	**61,505**	78,249
Negative mark to market value of derivatives (note 29)	**73,984**	55,438
	931,438	928,688

17 EQUITY

Share capital

The fully paid up and authorised ordinary share capital as at 31 December 2017 comprised 2,802,733,968 ordinary shares of AED 1 each (2016: 2,802,733,968 shares of AED 1 each). The movement in no. of shares during the year is as follows:

	2017	2016
As at 1 January	**2,802,733,968**	2,802,733,968
Bonus shares issued during the year	-	-
As at 31 December	**2,802,733,968**	2,802,733,968

Statutory reserve

The Group's Article of Association in line with regulatory requirements require a minimum of 10% of annual net profit to be transferred to statutory reserve, until such time as this reserve equals 50% of share capital. During the year no transfer to statutory reserve was required (2016: nil) to meet the minimum regulatory requirement. The statutory reserve is not available for distribution except under the circumstances stipulated by the relevant law.

Capital reserve

This reserve represents the market value of the granted land at the date of grant as explained in note 11, and is not available for distribution to the shareholders.

General reserve

The Group's new Articles of Association adopted by the General Assembly of Shareholders in its meeting held on 26 June 2016 deleted the requirement for the General Reserve. Therefore, there is no requirement to transfer 10% of the annual net profit to the General Reserve. The previous Group's Articles of Association, required a minimum of 10% of the annual net profit to be transferred to general reserve until such time as this reserve equals 50% of share capital. The existing General Reserve may only be used for purposes approved by the Shareholders.

Fair value reserve

This represents the net change in the fair values of available-for-sale investments, derivative instruments designated as cash flow hedge instruments held by the Group at reporting date and actuarial gains on retirement benefits obligations. This reserve is not available for distribution to the shareholders until realised.

Proposed distribution

As of the date of approving the consolidated financial statements, the Board of Directors' proposed dividends will be submitted to the Central Bank of the U.A.E. for its approval.

18 INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2017 AED'000	2016 AED'000
Interest income		
Loans and advances	**1,942,448**	1,847,774
Negotiable certificates of deposit with the Central Bank	**18,285**	4,940
Due from banks	**21,015**	11,133
Investment securities		
- Held-to-maturity bonds	**5,220**	2,445
- Available-for-sale bonds	**210,332**	208,853
	2,197,300	2,075,145

	2017 AED'000	2016 AED'000
Income from Islamic financing		
Murabaha and Tawaruq	**141,265**	94,712
Ijara	**176,197**	117,854
Musharaka	-	46
Negotiable certificates of deposit with Central Bank	-	46
	317,462	212,658
Total interest income and income from Islamic financing	**2,514,762**	2,287,803

19 INTEREST EXPENSE AND DISTRIBUTION TO ISLAMIC DEPOSITORS

	2017 AED'000	2016 AED'000
Interest expense		
Due to banks	**12,092**	6,122
Customer deposits	**361,860**	242,513
Notes and medium term borrowings	**201,220**	184,393
Others	-	2,578
	575,172	435,606
Distribution to Islamic depositors		
Islamic customer deposits	**118,866**	127,044
	118,866	127,044
Total interest expense and distribution to Islamic depositors	**694,038**	562,650

Distribution to Islamic depositors represents the share of income allocated to Islamic depositors of the Group. The allocation and distribution is approved by the Group's Sharia'a Supervisory Board.

20 NET FEES AND COMMISSION INCOME

	2017 AED'000	2016 AED'000
Lending activities	**182,324**	148,763
Trade finance activities	**144,353**	138,631
Account operating activities	**184,030**	164,925
Cards income and brokerage fees	**104,170**	82,568
	614,877	534,887
Cards, commissions and brokerage expenses	**(50,287)**	(39,625)
	564,590	495,262

21 NET GAINS FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS - HELD FOR TRADING

	2017 AED'000	2016 AED'000
Net realised gains on sale of investments at fair value through profit or loss- held for trading	**5,516**	924
Net unrealised losses on investments at fair value through profit or loss- held for trading	**(268)**	-
	5,248	924

22 DIVIDEND INCOME

	2017 AED'000	2016 AED'000
Available-for-sale investments	**61,013**	7,449
	61,013	7,449

23 STAFF AND OTHER EXPENSES

Staff and other expenses include staff related expenses of AED 608.8 million (2016: AED 609.6 million) and sitting fees paid to directors for attending committee meetings during the year ended 31 December 2017 of AED 2.7 million (2016: AED 2.9 million) and corporate social responsibility (CSR) related expenses of AED 2.1 million (2016: AED 1.94 million).

24 OPERATING LEASES

Group as lessee

General and administrative expenses include rental expense under operating leases of AED 17.1 million (2016: AED 21.1 million). Future minimum lease payments under non-cancellable operating leases as at 31 December are, as follows:

	2017 AED'000	2016 AED'000
Less than 1 year	**10,977**	8,288
From 1 year to 5 years	**9,582**	10,670
	20,559	18,958

25 BASIC AND DILUTED EARNINGS PER SHARE

The earnings per share (EPS) is based on the Group's profit for the year amounting to AED 1,001.9 million (2016: AED 1,003.1 million), and on the weighted average number of shares in issue totaling 2,802,733,968 (2016: 2,802,733,968).

There was no dilutive effect on earnings per share.

26 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated statement of financial position amounts:

	2017 AED'000	2016 AED'000
Cash on hand	**509,915**	515,182
Balances with the Central Bank U.A.E.	**475,591**	718,248
Negotiable certificates of deposit with the Central Bank U.A.E. with original maturity less than three months	**400,000**	2,500,000
Due from banks with original maturity less than three months	**2,682,648**	3,198,680
	4,068,154	6,932,110
Due to banks with original maturity less than three months	**(596,173)**	(1,373,418)
	3,471,981	5,558,692

27 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letters of credit and guarantees which are designed to meet the requirements of the Group's customers toward third parties. Undrawn commitments represent the Group's commitments towards approved un-drawn credit facilities. The amount of contingent liabilities reflected below represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2017 AED'000	2016 AED'000
Contingent liabilities:		
Letters of credit	**1,021,104**	1,157,549
Guarantees	**9,197,212**	8,446,494
	10,218,316	9,604,043
Undrawn commitments to extend credit:		
- irrevocable	**1,998,263**	807,563
- revocable	**12,558,189**	13,682,630
	14,556,452	14,490,193
Capital commitments:		
Capital expenditure commitments	**44,210**	32,809
Total contingent liabilities and commitments	**24,818,978**	24,127,045

Acceptances

Under IAS 39, acceptances are recognised on balance sheet with a corresponding liability. Accordingly, these are not contingent liabilities.

28 FIDUCIARY ASSETS

Assets held under fiduciary capacity on behalf of clients amounted to AED 1,277.2 million (2016: AED 1,196.6 million).

29 DERIVATIVES

The following table shows the positive and negative fair values of derivative financial instruments at the reporting date, together with the notional amounts, analyzed by terms to maturity. The notional amount is the value of the derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and therefore, are neither indicative of the Group's exposure to credit risk nor market risk. Credit risk on derivatives is limited to its positive fair value if any.

	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000	Less than three months AED'000	From three months to one year AED'000	From one year to five years AED'000	Over Five years AED'000
31 December 2017							
Cash flow hedge instruments	-	12,026	82,643	-	-	82,643	-
Fair value hedge instruments	198	2,022	262,475	-	-	104,654	157,821
Forward foreign exchange contracts and other derivatives assets	69,477	-	3,643,533	1,663,249	709,595	858,580	412,109
Forward foreign exchange contracts and other derivatives liabilities	-	59,936	2,153,125	674,082	778,932	411,931	288,180
	69,675	73,984	6,141,776	2,337,331	1,488,527	1,457,808	858,110

	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000	Less than three months AED'000	From three months to one year AED'000	From one year to five years AED'000	Over Five years AED'000
31 December 2016							
Cash flow hedge instruments	2,047	1,351	89,345	-	-	29,751	59,594
Fair value hedge instruments	16,092	2,805	555,144	-	-	114,669	440,475
Forward foreign exchange contracts and other derivatives assets	59,191	-	5,286,473	2,481,758	661,802	903,994	1,238,919
Forward foreign exchange contracts and other derivatives liabilities	-	51,282	3,320,197	1,435,237	463,109	411,776	1,010,075
	77,330	55,438	9,251,159	3,916,995	1,124,911	1,460,190	2,749,063

Cash-flow hedge instruments include interest rate and cross currency swaps. Fair value hedge instruments include interest rate swaps.

The hedged forecast cash-flows which are expected to occur over the future years and are expected to affect profit or loss, are insignificant.

30 SEGMENTAL REPORTING

The primary format, business segments, is based on the Group's management and internal reporting structure that are regularly reviewed by the Executive Committee in order to allocate resources to the segment and to assess its performance.

Business segments pay to and receive interest from the Treasury to reflect the allocation of funding costs.

Business segments

Corporate banking	Includes loan and other credit facilities, deposits, trade finance products and e-commerce solutions to large corporate clients (including Government related entities).
Commercial banking	Includes loans, working capital financing, trade finance and deposits products to commercial (mid-sized) clients.
Business banking	Includes loans, working capital financing, trade finance and deposits products to small business clients.
Personal banking	Includes current accounts, easy access saving accounts, fixed rate deposit accounts, personal loans, overdraft facilities, vehicle finance, mortgage products, loans and other credit facilities to business (small) clients, high net-worth (Al Dana), mid-tier clients (personal) and modest income group (direct).
Treasury and investments	Undertakes balance sheet management deals and manages the Group's proprietary investment portfolio. It also has derivatives for trading and risk management purposes.

Interest is charged or credited to business segments and branches to match funding transfer pricing rates which approximate the cost of funds.

Geographical

The Group operates in one geographic area, the United Arab Emirates.

	Corporate banking	**Commercial banking**	**Business banking**	**Personal banking**	**Treasury & investments**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
2017						
Assets	**32,598,749**	**12,575,106**	**1,002,959**	**6,993,281**	**17,243,962**	**70,414,057**
Liabilities	**30,174,291**	**8,935,108**	**3,425,128**	**11,830,031**	**6,968,744**	**61,333,302**
2016						
Assets	29,024,791	9,398,139	1,396,822	6,224,618	18,035,406	64,079,776
Liabilities	25,884,370	7,129,647	3,510,553	11,207,379	7,668,204	55,400,153

30 SEGMENTAL REPORTING (continued)

	Corporate banking AED'000	Commercial banking AED'000	Business banking AED'000	Personal banking AED'000	Treasury & investments AED'000	Total AED'000
2017						
Net interest income and net income from Islamic financing	**670,950**	**416,903**	**177,829**	**332,367**	**222,675**	**1,820,724**
Non-interest & other income	**217,057**	**157,062**	**97,726**	**180,525**	**169,332**	**821,702**
Total operating income	**888,007**	**573,965**	**275,555**	**512,892**	**392,007**	**2,642,426**
Expenses *(note a)*	**150,125**	**139,467**	**119,874**	**420,253**	**70,949**	**900,668**
Net provisions *(note b)*	**(84,563)**	**401,837**	**157,906**	**211,841**	**52,819**	**739,840**
	65,562	**541,304**	**277,780**	**632,094**	**123,768**	**1,640,508**
Net profit / (loss) for the year	**822,445**	**32,661**	**(2,225)**	**(119,202)**	**268,239**	**1,001,918**
2016						
Net interest income and net income from Islamic financing	738,693	417,759	180,007	312,575	76,119	1,725,153
Non-interest & other income	181,219	166,789	95,795	121,707	171,375	736,885
Total operating income	919,912	584,548	275,802	434,282	247,494	2,462,038
Expenses *(note a)*	198,165	146,093	111,535	375,331	39,406	870,530
Net provisions *(note b)*	(45,322)	299,373	144,984	156,465	32,943	588,443
	152,843	445,466	256,519	531,796	72,349	1,458,973
Net profit / (loss) for the year	767,069	139,082	19,283	(97,514)	175,145	1,003,065

(a) This includes staff and other expenses and depreciation and amortization.

(b) This includes impairment allowances on loans and advances and Islamic financing, investment securities and other assets net of recoveries.

The following is an analysis of the total operating income of each segment between income from external parties and inter-segment:

	External parties		**Inter-segment**	
	2017	2016	**2017**	2016
	AED'000	AED'000	**AED'000**	AED'000
Corporate banking	**1,001,080**	962,759	**(113,073)**	(42,847)
Commercial banking	**665,689**	635,219	**(91,724)**	(50,671)
Business banking	**242,035**	253,520	**33,520**	22,282
Personal banking	**481,074**	413,946	**31,818**	20,336
Treasury & investments	**252,548**	196,594	**139,459**	50,900
Total operating income	**2,642,426**	2,462,038	**-**	-

31 RELATED PARTY TRANSACTIONS AND BALANCES

As at 31 December 2017 and 31 December 2016, Investment Corporation of Dubai ("ICD") owns 20% share capital of the Bank. ICD is wholly owned by the Government of Dubai (the "Government").

Other than the transactions disclosed below, the Group enters into transactions with other Government entities. In accordance with the exemption available in the revised IAS 24, these transactions with such related Government entities are not collectively or individually significant and have not been disclosed.

The Group in the ordinary course of business enters into transactions with major shareholders, directors, key management personnel and their related entities. The terms of these transactions are approved by the Group's Board of Directors.

	Directors and key management personnel		**Government related parties**		**Other related parties**	
	2017	2016	**2017**	2016	**2017**	2016
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Loans and advances and Islamic financing, net	**157,357**	172,873	**1,804,980**	1,998,853	**1,207,730**	1,001,567
Due from banks	**-**	-	**771,404**	275,475	**-**	-
Investment securities	**-**	-	**1,466,632**	1,344,038	**-**	-
Acceptances	**-**	-	**-**	216,067	**149,886**	11,792
Letters of credit	**-**	-	**-**	-	**12,606**	22,698
Letters of guarantees	**-**	-	**323,531**	172,595	**624,380**	711,539
Undrawn commitments to extend credit	**26,167**	17,003	**1,238,827**	1,128,803	**589,391**	580,451
Due to banks	**-**	-	**11,926**	18,846	**-**	-
Customer deposits and Islamic customer deposits	**52,559**	24,884	**4,495,314**	5,134,321	**1,235,327**	1,702,570
Interest income and commission income	**8,303**	7,498	**67,320**	60,926	**62,149**	37,804
Interest expense	**132**	54	**93,986**	74,785	**26,047**	30,297
Dividend from an associate	**-**	-	**-**	-	**3,196**	2,662

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Other related parties represents major shareholders and parties related to directors, key management personnel.
The terms of transactions with related parties are comparable to third party transactions and do not involve more than normal amount of risk.

No specific allowance for impairment losses has been made on balances with key management personnel and their immediate relations at the year end.

Sitting fees paid to directors for attending committee meetings during the year ended 31 December 2017 amounted to AED 2.7 million (2016: AED 2.9 million).

Key management compensation	**2017**	2016
	AED'000	AED'000
Salaries	**18,525**	14,284
Post-employment benefits	**809**	648
Other benefits	**14,589**	10,217

32 RISK MANAGEMENT OBJECTIVES AND POLICIES

32.1 Risk Governance

The Board of Directors (the "Board") has the overall responsibility for the operations and the financial stability of the Group, and ensures that the interests of shareholders, depositors, creditors, employees and other stakeholders, including the banking regulators and supervisors, are addressed. The Board is responsible for strategic direction, management oversight and adequate control with the ultimate objective of promoting the success and long-term value of the Bank. The Board is also responsible for the overall framework of the risk governance, management, determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. Additionally, it is responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures as well as management of all risks related to the Group.

In order to effectively discharge this responsibility the Board is assisted by various Board Committees, namely Board Risk Committee (BRC), Audit & Compliance Committee (ACC), Credit & Investment Committee(CIC) and Nomination & Remuneration Committee (REMCO).

Management actively manages risk, primarily through the Risk Department with oversight by the Executive Committee (EXCO), Assets & Liabilities Committee (ALCO), Credit Committee (CC), IT Steering Committee (ITSC), Information Security Risk Committee (ISRC), Compliance Committee (CCO)and Human Resources Committee (HRC).

32.2 Control Environment

a) Group Risk

Group Risk Department comprises credit, market, operational and IT risks units. Its responsibilities include the following:

- Developing a strategy, policy and framework for risk management such that these are aligned with business requirements;
- Providing support to the Group in implementation of the framework;
- Bringing together analysis of risk concentrations and sensitivities across the Group;
- Acting as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- Providing independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

b) Internal Audit

The role of the Internal Audit Department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature, and are generally performed at the specific request of the ACC or Management.

It is led by the Head of Internal Audit who reports to the ACC of the Board of Directors, with administrative reporting to the Chief Executive Officer of the Bank.

To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel. The Internal Audit Charter empowers it to have full, free and effective access at all reasonable times to all records, documents and employees of the Group. Internal Audit has direct access to the Chairman of the ACC and Chief Executive Officer of the Bank.

To determine whether the Internal Audit Function is functioning effectively, the ACC shall:

- Assess the appropriateness of the Internal Audit Charter once each year;
- Assess the adequacy of resources available, both in terms of skills and funding once each year; and
- Sponsor external assessments, at least once every three (3) years, by a qualified, independent reviewer from outside the Group.

32 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.2 Control Environment (continued)

c) Internal Control

Board of Directors and Management are responsible for developing and maintaining the existence of a sound Internal Control System and procedures that meet international standards and fulfill the requirements of the Group's management and external regulatory bodies. The internal control system should be capable of ensuring the achievement of the following:

- Accuracy and integrity of financial and operational statements issued by the Group;
- Effectiveness and efficiency of the Group's operational activities;
- Effectiveness of measures and procedures set to safeguard the Group's assets and properties; and
- Compatibility with laws, legislations and regulations in force as well as policies pertinent to internal operational procedures.

Executive management constantly monitors and assesses the efficiency and effectiveness of internal control procedures and their ability to achieve stated objectives and their furtherance and enhancement.

The functions and responsibilities of the Internal Control Department include but not limited to:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enabling the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Monitoring of operational activities and overseeing operational controls being exercised to ensure that these are timely and effective.

d) Compliance and Fraud prevention

The process of monitoring compliance is an independent task which aims at ensuring that the Group is in compliance with all applicable laws, regulations, instructions, directives, codes of conduct and sound banking standards and practices as issued by relevant authorities.

The Board of Directors takes necessary measures to further the values of integrity and sound professional conduct within the Group promoting a culture of compliance in letter and spirit of applicable laws, regulations, instructions and standards.

The mission and role of compliance, AML and Fraud prevention department is to:

- Ensuring compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- Ensuring senior management is fully informed of significant compliance issues and plans for resolution;
- Contributing to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- Aligning annual compliance plans with business strategies and goals; and
- Meet regulatory expectations, FATCA and CRS requirements.

Fraud prevention

The Bank has a dedicated Fraud Prevention and Investigation Unit that assists in identification, detection, and verification of potential or actual fraud incidents including quantification and recoupment of any losses sustained as a result of such incident. The purpose is to manage susceptibility of bank's assets and processes to fraud risk with a view to reducing it and to raise the level of fraud awareness amongst employees and other stakeholders.

e) Whistle Blowing

A set of arrangements has been designed to enable employees to confidentially report concerns about any potential violations, enabling the investigation and follow up of such concerns independently and discreetly through the whistle blowing policy. Such arrangements are supervised by the ACC and in coordination with the executive management.

32 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.3 Disclosure policy

The Group has laid down the disclosure policy to ensure compliance with all regulations and guidelines issued by the lead regulator Central Bank of the UAE (CBUAE), International Financial Reporting Standards (IFRS), Securities and Commodities Authority (SCA) and Dubai Financial Market (DFM).

The following are the key features of the Group's disclosure policy concerning disclosure of financial information:

a) Materiality thresholds

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of consolidated financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement, and / or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down qualitative materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

b) Control framework

In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalization and review of financial disclosures. In addition, the consolidated financial statements are subject to a quarterly review and year end audit procedures by the Group's external auditors.

c) Frequency and medium of disclosure

Interim financial results are disclosed on a quarterly basis while complete consolidated financial statements complying with the requirements of IFRS, basel III Pillar 3, relevant laws of the U.A.E, SCA requirement and other guidelines from CBUAE is made on annual basis. Disclosures of material non-public financial information are made as follows:

- Uploading quarterly reviewed and annual audited consolidated financial statements along with Directors' report to DFM and SCA websites;
- Posting quarterly and annual consolidated financial statements on the Group's website;
- Publishing of annual audited consolidated financial statements in both Arabic and English newspapers after the approval of the Central Bank of UAE and the Shareholders at the Annual General Meeting (AGM);
- Management discussion and analysis in Arabic and English newspapers in a manner that ensures wide dissemination; and
- Publication of the annual report which includes audited consolidated financial statements.
- Investor's pack is presented on Bank's website on a quarterly and annual basis.

33 FINANCIAL RISK MANAGEMENT

a) Introduction and overview

The Group has exposure to the following primary risks:
• Credit risk
• Liquidity risk
• Market risk
• Operational risk

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training, management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Risk Committee (BRC) is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's BRC is assisted in these functions by Internal Audit, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group BRC as well as ACC.

This note presents information relating to the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the Group's loans and advances, Islamic financing, amounts due from banks and investment in debt securities. For reporting purpose credit risk on Islamic financing is reported as component of credit risk on loans and advances. For risk management purposes, credit risk arising on trading investments is managed independently.

(i) Management of credit risk

Credit Committee (CC) manages the credit risk of the Group by continuous review and update of credit limits, credit policies, process and frame-work, the approval of specific exposures and work out proposals, constant revaluation of the loans portfolio and the sufficiency of provisions thereof.

(ii) Impaired loans and advances, Islamic financing and investment in debt securities

Individually impaired loans and advances, Islamic financing and investment in debt securities are financial assets for which the Group determines that there is objective evidence of impairment and it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

33 FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

The Group Credit Risk Rating Methodology, which has been internally developed based on actual historical data, is in line with the requirements set out in the basel III Accord and has a 14-grades frame-work, whereby:

• The first 9 grades are assigned to non-defaulting borrowers / performing accounts;
• Grade 10 reflects irregular accounts; and
• The last 4 grades are for defaulting borrowers / non- performing accounts.

Grades	Asset quality	Risk significance
1	Normal	Good, top performing assets and debt securities with External Credit Assessment (ECA) of "A" and better than "A" and unrated bonds internally assessed as top performing.
2-5	Normal	Good, above average performing assets
6-9	Normal	Good, below average performing assets
10	OLEM	Watch-list loans / performing
11-12	Sub-standard	Substandard - Interest Suspended / Specific provision starts / non-performing
13	Doubtful	Doubtful of recovery / non-performing
14	Loss	Loss (fully provided for, or written off) / non-performing

The methodology provides a multi-dimensional approach to the Group's Credit Risk Rating, where credit is assessed and rated on two dimensions, as follows:

• 1st Dimension: which assesses / rates the borrower's probability of Default (PD); and
• 2nd Dimension: which assesses / rates the facility and the Loss-Given Default (LGD).

Both dimensions create a Credit-Risk Rating Grid/Matrix which plays a key role in pricing, approval, and credit monitoring. In order to achieve this, the Group has priced facilities using Risk Adjusted Return on Capital (RAROC).

(iii) *Past due but not impaired loans*

These are the loans where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

(iv) *Loans with renegotiated terms*

Loans with renegotiated terms include loans, the repayment plan of which have been rescheduled with no other concession in amount or rate of interest. Rescheduling activity is designed to manage customer relationships. Following rescheduling, an overdue account will normally be reset from delinquent to current status. Rescheduling is done based on indications or criteria which, in the opinion of management, evidence the probability that payment will continue. Management continuously monitors the progress on renegotiated loans to ensure compliance with the terms at all times.

(v) *Restructured performing loans / under restructuring*

Restructured performing loans or loans under restructuring represent loans, whose terms have been restructured or are under restructuring and involve a concession in rate of interest. These loans are not delinquent; however appropriate impairment loss is recognised on such loans.

At 31 December 2017, restructured performing loans and loans under restructuring amount to AED 455.8 million (2016: AED 638.2 million).

33 FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(vi) Exposure to credit risk

The Group measures its exposure to credit risk by reference to gross carrying amount of financial assets less interest suspended and impairment losses, if any.

	Loans and receivables		Due from banks		Debt securities	
	2017	2016	**2017**	2016	**2017**	2016
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
i. Neither past due nor impaired						
Grades 1: good, top performing assets	**11,518,841**	8,908,874	**2,834,710**	3,724,254	**5,503,755**	5,877,401
Grade 2-9: good, performing assets	**33,460,948**	30,110,308	-	-	**1,467,010**	1,320,458
Grade 10: watch- list loans /performing	**952,920**	2,089,454	-	-	-	-
Carrying amount	**45,932,709**	41,108,636	**2,834,710**	3,724,254	**6,970,765**	7,197,859
ii. Past due but not impaired						
In Grade 1 to 10						
Less than 30 days	**484,154**	254,621	-	-	-	-
30 - 60 days	**134,689**	180,610	-	-	-	-
60 - 90 days	**69,322**	136,396	-	-	-	-
Over 90 days	**285,297**	332,473	-	-	-	-
Carrying amount	**973,462**	904,100	-	-	-	-
iii. Individually impaired						
Grade 11 & 12: Substandard	**933,216**	793,390	-	-	-	-
Grade 13: Doubtful	**406,595**	566,705	-	-	-	-
Grade 14: Loss	**1,289,919**	1,202,040	-	-	-	-
Carrying amount	**2,629,730**	2,562,135	-	-	-	-
iv. Impaired on portfolio basis – Retail						
Grade 11 & 12: Substandard	**122,566**	92,525	-	-	-	-
Grade 13: Doubtful	**118,010**	381,535	-	-	-	-
Grade 14: Loss	**408,970**	64,907	-	-	-	-
Carrying amount	**649,546**	538,967	-	-	-	-
Total carrying amount	**50,185,447**	45,113,838	**2,834,710**	3,724,254	**6,970,765**	7,197,859
Specific provision for impairment	**(1,077,280)**	(1,215,674)	-	-	-	-
Portfolio provision for impairment related to (iv) above	**(285,669)**	(213,522)	-	-	-	-
Specific provision for individually restructured loans and under restructuring /OLEM	**(169,437)**	(420,113)	-	-	-	-
Interest in suspense	**(548,505)**	(530,661)	-	-	-	-
Collective provision for impairment related to (i) and (ii) above	**(828,831)**	(771,330)	-	-	-	-
Total provisions for impairment	**(2,909,722)**	(3,151,300)	-	-	-	-
Carrying amount net of impairment	**47,275,725**	41,962,538	**2,834,710**	3,724,254	**6,970,765**	7,197,859

33 FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(vii) Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss component that relate to individually significant exposures, and a collective loan loss allowance established for group of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. Assets carried at fair value through profit or loss is not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

The Group monitors concentrations of its impaired loans by sector and by geographic location. An analysis of concentrations of impaired (excluding restructured loans / under restructuring) loans by sector is shown below:

2017	**Impaired loans AED'000**	**Collateral AED'000**	**Specific provision and interest in suspense AED'000**
Manufacturing	**67,814**	**25,068**	**56,280**
Construction	**239,425**	**67,510**	**189,048**
Real estate	**510,848**	**344,668**	**127,006**
Trade	**1,016,868**	**102,970**	**790,750**
Transportation and storage	**50,570**	**13,766**	**37,649**
Services	**85,239**	**22,222**	**65,909**
Hospitality	**442,361**	**409,191**	**68,613**
Financial and insurance activities	**44,027**	**13,950**	**10,028**
Government entities	**-**	**-**	**-**
Personal - mortgage	**352,589**	**193,550**	**214,039**
Personal - schematic	**197,352**	**515**	**148,890**
Individual loans for business	**269,139**	**127,085**	**201,850**
Others	**3,044**	**-**	**1,392**
Total carrying amount	**3,279,276**	**1,320,495**	**1,911,454**

2016	**Impaired loans AED'000**	**Collateral AED'000**	**Specific provision and interest in suspense AED'000**
Manufacturing	43,901	6,497	21,454
Construction	435,203	122,087	393,917
Real estate	165,664	95,771	68,639
Trade	1,064,550	156,351	788,208
Transportation and storage	58,622	10,304	32,924
Services	97,787	1,339	75,761
Hospitality	364,574	375,217	24,327
Financial and insurance activities	45,314	888	10,972
Government entities	-	-	-
Personal - mortgage	319,231	318,730	175,684
Personal - schematic	166,877	1,374	121,641
Individual loans for business	248,384	178,896	156,678
Others	90,995	150	89,652
Total carrying amount	3,101,102	1,267,604	1,959,857

In addition to the specific provision, the Group held AED 828.8 million (2016: AED 771.3 million) as collective provisions.

All impaired loans are located in one geographic area i.e. the United Arab Emirates. The value of collateral is restricted to lower of loan exposure or realisable value of the collateral.

The gross carrying value of unfunded exposures pertaining to impaired loans amounted to AED 90.7 million (2016: AED 98.7 million).

33 FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(vii) Allowances for impairment (continued)

Set out below is an analysis of the gross and net (of provisions for impairment) amounts of individually impaired assets by risk grade:

	Gross	Specific provision and interest in suspense	Net
31 December 2017	**AED'000**	**AED'000**	**AED'000**
Grade11&12: Substandard	**933,216**	**149,949**	**783,267**
Grade 13: Doubtful	**406,595**	**210,545**	**196,050**
Grade 14: Loss	**1,289,919**	**1,101,192**	**188,727**
Total	**2,629,730**	**1,461,686**	**1,168,044**
31 December 2016			
Grade11&12: Substandard	793,390	243,175	550,215
Grade 13: Doubtful	566,705	334,678	232,027
Grade 14: Loss	1,202,040	1,041,767	160,273
Total	2,562,135	1,619,620	942,515

In addition to specific provisions and interest in suspense the Group also holds collaterals against the non-performing loans. Realisable value of these collaterals is taken into account to calculate provision requirement.

(viii) Write - off policy

The Group writes off a loan / investment in debt security (and any related allowances for impairment) when the Group Credit Committee determines that the loan / security is uncollectible. This determination is reached after considering information such as the significant deterioration in the borrower's/issuer's financial position such that the borrower / issuer can no longer pay the obligation, or proceeds from collateral will not be sufficient to pay back the entire exposure or all possible efforts of collecting the amounts have been exhausted.

For smaller balances of standardized loans, write off decisions are generally based on a product-specific past due status.

(ix) Collateral

The Group holds collateral against loans and advances in the form of cash, guarantees, mortgages and liens over properties or other securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored and updated on a periodic basis. Generally, collateral is not held against debt securities and amounts due from banks, and no such collateral was held at 31 December 2017 or 2016.

Analysis of collateral by type is presented in the following table:

	2017	2016
	AED'000	AED'000
Pledged deposits	**2,067,227**	1,650,326
Properties	**21,297,734**	18,242,088
Hypothecation & mortgages	**1,142,902**	897,074
Pledge of shares	**911,179**	841,745
Government and bank guarantees	**132,543**	149,342
Bills discounted-cheques	**346,805**	622,641
Others	**67,887**	50,830
Total collaterals	**25,966,277**	22,454,046

The above represents collateral value restricted to the lower of loan balance or collateral value.

33 FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(x) *Concentration*

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The following tables set out the concentration of credit risk by sector, geography and currency.

Concentration of credit risk by sector for 2017

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
Concentration by sector								
Manufacturing	3,063,164	-	50,094	-	-	3,113,258	521,474	783,525
Construction	2,076,674	-	-	-	-	2,076,674	803,080	4,483,183
Real estate	16,257,991	-	312,191	9,666	-	16,579,848	3,655,679	1,457,852
Trade	4,959,352	-	-	-	-	4,959,352	2,189,074	6,603,190
Transportation and storage	1,952,551	-	291,186	5,456	-	2,249,193	1,042,749	137,729
Services	3,710,102	-	761,103	60,714	-	4,531,919	1,009,001	812,515
Hospitality	2,929,679	-	-	-	-	2,929,679	432,022	15,037
Financial and insurance activities	4,668,691	2,834,710	3,012,066	30,479	81,053	10,626,999	1,373,668	841,380
Government entities	135,121	-	2,033,204	-	6,298,624	8,466,949	40,087	50
Personal - mortgage	2,627,582	-	-	-	-	2,627,582	42,645	-
Personal - schematic	4,544,506	-	-	-	-	4,544,506	2,104,916	8,521
Individual loans for business	2,282,999	-	-	-	-	2,282,999	549,855	7,765
Others	977,035	-	510,921	-	1,798,978	3,286,934	792,202	188,755
Total carrying amount	50,185,447	2,834,710	6,970,765	106,315	8,178,655	68,275,892	14,556,452	15,339,502

33 FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(x) *Concentration (continued)*

Concentration of credit risk by sector for 2016

Concentration by sector	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
Manufacturing	2,482,930	-	30,902	-	-	2,513,832	1,155,408	635,416
Construction	2,287,914	-	-	-	-	2,287,914	822,396	4,784,430
Real estate	14,196,011	-	234,071	9,945	-	14,440,027	2,142,779	1,379,942
Trade	4,937,070	-	-	-	-	4,937,070	1,818,760	4,163,722
Transportation and storage	2,554,220	-	358,949	15,552	-	2,928,721	1,337,566	68,618
Services	3,550,667	-	660,888	85,274	-	4,296,829	701,514	724,424
Hospitality	1,673,013	-	-	-	-	1,673,013	554,296	27,312
Financial and insurance activities	3,800,653	3,724,254	3,749,260	109,647	77,768	11,461,582	2,198,686	657,331
Government entities	39,915	-	1,712,913	-	6,197,284	7,950,112	125,000	50
Personal - mortgage	2,225,193	-	-	-	-	2,225,193	55,069	-
Personal - schematic	3,456,418	-	-	-	-	3,456,418	1,479,367	10,670
Individual loans for business	2,866,295	-	-	-	-	2,866,295	799,129	26,511
Others	1,043,539	-	450,876	-	1,659,338	3,153,753	1,300,223	182,573
Total carrying amount	45,113,838	3,724,254	7,197,859	220,418	7,934,390	64,190,759	14,490,193	12,660,999

Acceptances are part of unfunded exposures; in line with the Basel III, Pillar 3 disclosure requirements.

33 FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(x) Concentration (continued)

Concentration of credit risk by geographic location:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
2017								
Concentration by location								
UAE	49,032,668	991,877	4,574,590	94,506	8,178,655	62,872,296	14,451,692	11,425,070
GCC	256,469	482,438	1,666,464	11,611	-	2,416,982	49,305	45,651
Middle East	111,842	453	-	-	-	112,295	2,321	39,095
Europe	53,133	1,041,049	142,119	198	-	1,236,499	12,289	2,428,823
USA	-	158,909	109,258	-	-	268,167	-	64,209
Asia	101,172	80,320	431,722	-	-	613,214	40,845	1,336,654
Others	630,163	79,664	46,612	-	-	756,439	-	-
Total carrying amount	50,185,447	2,834,710	6,970,765	106,315	8,178,655	68,275,892	14,556,452	15,339,502
2016								
Concentration by location								
UAE	44,184,796	1,397,924	4,549,311	144,931	7,934,390	58,211,352	14,315,967	12,059,074
GCC	372,741	626,540	2,034,519	11,701	-	3,045,501	28,744	76,094
Middle East	57,724	37,139	-	-	-	94,863	68,650	26,049
Europe	127,405	1,133,596	186,457	63,786	-	1,511,244	5,326	219,712
USA	-	61,513	116,866	-	-	178,379	-	71,476
Asia	5,399	406,851	264,190	-	-	676,440	71,506	202,316
Others	365,773	60,691	46,516	-	-	472,980	-	6,278
Total carrying amount	45,113,838	3,724,254	7,197,859	220,418	7,934,390	64,190,759	14,490,193	12,660,999

33 FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(x) Concentration (continued)

Concentration of credit risk by currency:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
2017								
Concentration by currency								
AED	42,644,739	200,016	-	94,505	7,647,226	50,586,486	12,324,987	8,796,483
Other currencies*	7,540,708	2,634,694	6,970,765	11,810	531,429	17,689,406	2,231,465	6,543,019
Total carrying amount	50,185,447	2,834,710	6,970,765	106,315	8,178,655	68,275,892	14,556,452	15,339,502
2016								
Concentration by currency								
AED	38,681,032	475,017	28,064	144,931	7,453,032	46,782,076	11,124,243	9,416,001
Other currencies*	6,432,806	3,249,237	7,169,795	75,487	481,358	17,408,683	3,365,950	3,244,998
Total carrying amount	45,113,838	3,724,254	7,197,859	220,418	7,934,390	64,190,759	14,490,193	12,660,999

*Majority of assets denominated in other currencies are in USD to which AED is pegged.

33 FINANCIAL RISK MANAGEMENT (continued)

c) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are rare and are monitored and quantified as part of the Group's Internal Capital Adequacy Assessment Procedures (ICAAP) framework and Operational Risk Management.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Group Risk Management Department.

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at contracted maturities and rates and the inability to liquidate assets at reasonable prices and in the required timeframe and the inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

(i) Management of liquidity risk

Liquidity risk is managed by the Treasury and Asset and Liability management (ALM) department in line with the regulatory, internal policies and guidelines. The Group's approach to manage liquidity risk is to ensure that it has adequate funding from diversified sources at all times to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage of the Group's reputation.

Funds are raised using a broad range of instruments including customers' deposits, medium term borrowings, money market instruments, subordinated debts and capital. The treasury and ALM department monitors the liquidity profile of financial assets and liabilities and the projected cash flows arising from existing and future business. Treasury maintains a portfolio of short-term liquid assets and inter-bank placements to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and abnormal market conditions.

The Group's liquidity management process, as carried out within the Group and monitored by Group's treasury, includes:

- Day to day funding is managed by monitoring future cash flows to ensure that requirements can be met - these include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money market to facilitate funding activities;
- Maintenance of a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Managing balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Repurchase arrangements with various Banks which allow it to repo its fixed income investments to meet any liquidity needs that may arise.

(ii) Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the advances to stable resources ratio (regulatory ratio) which is 88.59% as at 31 December 2017 (2016: 83.67%). In addition, the Group also uses the following ratios/information on a continuous basis for measuring liquidity risk:

- Liquid assets to total assets ratio;
- Net loans to deposits ratio (LDR);
- Third party liabilities maturing within one month to total third party liabilities;
- Customers' deposits maturing within one month to total customers' deposits;
- Deposits' concentration; and
- Basel III ratios (including LCR, NSFR, etc.) are also monitored internally and shared with the Board on quarterly basis.

33 FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

The following table summarizes the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements. These do not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the residual period at the reporting date to the contractual maturity date.

The maturity profile of the assets and liabilities at 31 December 2017 was as follows:

Assets	Total AED'000	Less than 1 month AED'000	From 1 to 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 years AED'000	Over 5 years AED'000	No Fixed Maturity AED'000
Cash and balances with Central Bank	6,808,539	4,548,624	300,000	1,450,000	-	-	509,915
Due from banks	2,834,710	2,682,648	-	22,038	130,024	-	-
Loans and advances and Islamic financing	47,275,725	6,961,910	2,197,444	3,460,068	12,669,861	21,986,442	-
Investment securities	7,077,080	116,805	312,379	528,801	4,561,725	1,408,951	148,419
Investment in associate	81,053	-	-	-	-	-	81,053
Investment properties	194,980	-	-	-	-	-	194,980
Property and equipment	383,704	-	-	-	-	-	383,704
Bankers acceptances	5,121,186	1,005,078	64,854	3,823,561	227,693	-	-
Other assets	637,080	431,633	-	-	-	-	205,447
Total assets	70,414,057	15,746,698	2,874,677	9,284,468	17,589,303	23,395,393	1,523,518
Liabilities and equity							
Due to banks	779,823	594,823	185,000	-	-	-	-
Customer deposits and Islamic customer deposits	48,411,192	26,480,743	7,684,519	12,869,486	1,375,961	483	-
Notes and medium term borrowings	6,089,663	-	-	1,835,376	4,254,287	-	-
Due for trade acceptances	5,121,186	1,005,078	64,854	3,823,561	227,693	-	-
Other liabilities	931,438	870,133	-	-	-	-	61,305
Total liabilities	61,333,302	28,950,777	7,934,373	18,528,423	5,857,941	483	61,305
Gap representing equity	9,080,755	(13,204,079)	(5,059,696)	(9,243,955)	11,731,362	23,394,910	1,462,213

33 FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2016 was as follows:

Assets	Total AED'000	Less than 1 month AED'000	From 1 to 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 years AED'000	Over 5 years AED'000	No Fixed Maturity AED'000
Cash and balances with Central Bank	6,712,466	6,097,284	-	100,000	-	-	515,182
Due from banks	3,724,254	3,198,680	176,639	293,840	55,095	-	-
Loans and advances and Islamic financing	41,962,538	6,379,435	2,636,968	1,853,566	13,140,737	17,951,832	-
Investment securities	7,418,277	268,251	392,497	781,921	3,953,109	1,802,081	220,418
Investment in associate	77,768	-	-	-	-	-	77,768
Investment properties	232,923	-	-	-	-	-	232,923
Property and equipment	355,211	-	-	-	-	-	355,211
Bankers acceptances	3,056,956	229,017	771,398	2,053,558	2,983	-	-
Other assets	539,383	397,115	-	-	-	-	142,268
Total assets	64,079,776	16,569,782	3,977,502	5,082,885	17,151,924	19,753,913	1,543,770
Liabilities and equity							
Due to banks	1,560,148	1,448,418	75,000	36,730	-	-	-
Customer deposits and Islamic customer deposits	43,773,824	25,549,254	7,455,098	9,216,685	1,552,269	518	-
Notes and medium term borrowings	6,080,537	-	-	-	6,080,537	-	-
Due for trade acceptances	3,056,956	229,017	771,398	2,053,558	2,983	-	-
Other liabilities	928,688	862,966	-	-	-	-	65,722
Total liabilities	55,400,153	28,089,655	8,301,496	11,306,973	7,635,789	518	65,722
Gap representing equity	8,679,623	(11,519,873)	(4,323,994)	(6,224,088)	9,516,135	19,753,395	1,478,048

The table below shows the maturity of the Group's contingent liabilities and credit commitments:

	Total AED'000	Less than 1 month AED'000	From 1 to 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 years AED'000	Over 5 years AED'000
2017						
Contingent liabilities	**10,218,316**	**3,581,015**	**2,369,650**	**3,572,604**	**694,276**	**771**
Credit commitments	**14,556,452**	**3,617,670**	**1,393,436**	**4,992,164**	**949,407**	**3,603,775**
Total	**24,774,768**	**7,198,685**	**3,763,086**	**8,564,768**	**1,643,683**	**3,604,546**
2016						
Contingent liabilities	9,604,043	2,337,696	2,866,603	3,940,410	430,409	28,925
Credit commitments	14,490,193	4,214,905	3,049,218	3,125,276	1,217,158	2,883,636
Total	24,094,236	6,552,601	5,915,821	7,065,686	1,647,567	2,912,561

33 FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

The tables below show undiscounted contractual cash flows on the Group's financial liabilities:

	Total AED'000	Less than 1 month AED'000	From 1 to 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 years AED'000
2017					
Due to banks	**779,937**	**559,852**	**185,055**	**2,754**	**32,276**
Customer deposits and Islamic customer deposits	**48,839,135**	**26,529,184**	**7,763,603**	**13,112,397**	**1,433,951**
Notes and medium term borrowings	**6,468,286**	**-**	**16,972**	**1,908,278**	**4,543,036**
Due for trade acceptances	**5,121,186**	**1,005,078**	**64,854**	**3,823,561**	**227,693**
Other liabilities	**484,834**	**484,834**	**-**	**-**	**-**
Total liabilities	**61,693,378**	**28,578,948**	**8,030,484**	**18,846,990**	**6,236,956**

	Total AED'000	Less than 1 month AED'000	From 1 to 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 years AED'000
2016					
Due to banks	1,561,294	1,448,882	75,138	37,274	-
Customer deposits and Islamic customer deposits	44,106,069	25,513,657	7,577,295	9,143,975	1,871,142
Notes and medium term borrowings	6,593,642	6,235	2,309	139,696	6,445,402
Due for trade acceptances	3,056,956	229,017	771,398	2,053,558	2,983
Other liabilities	652,224	652,224	-	-	-
Total liabilities	55,970,185	27,850,015	8,426,140	11,374,503	8,319,527

e) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads, will affect the Group's income and / or value of a financial instrument. The Group manages its market risk in order to achieve optimum returns while maintaining market risk exposures within set risk appetite.

(i) Management of market risk

The Board of Directors sets the risk appetite pertaining to market Risk which translates into risk limits which are closely monitored by Group Risk Management, reported daily to senior management and discussed monthly by the ALCO.

The Group separates its exposure to market risk between trading and non-trading portfolios with overall responsibility vested with the ALCO. The Group Risk Management department is responsible for the development of detailed risk management policies and for the day-to-day implementation, subject to review and approval by the ALCO.

(ii) Exposure to interest rate risk – non trading portfolio

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages the risk principally through monitoring interest rate gaps, matching the re-pricing profile of assets and liabilities and by having pre-approved limits for repricing bands. The Group Risk Management Department monitors compliance with these limits on a daily basis and is responsible for reporting breaches if any, to senior management. ALCO review reports on a monthly basis.

In addition the Group also assesses the impact of defined movement in interest yield curves on its net interest income and regulatory capital. The following is the impact of interest rate movement on net interest income and regulatory capital:

	2017		2016	
	Net interest income		Net interest income	
	50 b.p. AED'000	**100 b.p. AED'000**	50 b.p. AED'000	100 b.p. AED'000
Upward Parallel Shift	**17,982**	**44,097**	17,362	49,663
Downward Parallel Shift	**(4,995)**	**(9,989)**	(5,426)	(10,852)

Interest rate movement is not expected to have a material impact on the capital.

33 FINANCIAL RISK MANAGEMENT (continued)

e) Market risk (continued)

A summary of the Group's interest rate sensitivity position based on contractual re-pricing arrangements or maturity dates, whichever dates are earlier is as follows:

31 December 2017	Non-interest bearing	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 Year	Total
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	**4,008,539**	**1,350,000**	**400,000**	**1,050,000**	**-**	**6,808,539**
Due from banks	**1,118,431**	**1,694,241**	**22,038**	**-**	**-**	**2,834,710**
Loans and advances and Islamic financing	**3,279,276**	**37,292,261**	**1,757,062**	**1,475,715**	**6,381,133**	**50,185,447**
Provisions	**(2,909,722)**	**-**	**-**	**-**	**-**	**(2,909,722)**
Investment securities	**148,419**	**594,739**	**100,507**	**327,281**	**5,906,134**	**7,077,080**
Investment in associate	**81,053**	**-**	**-**	**-**	**-**	**81,053**
Investment properties	**194,980**	**-**	**-**	**-**	**-**	**194,980**
Property and equipment	**383,704**	**-**	**-**	**-**	**-**	**383,704**
Bankers acceptances	**5,121,186**	**-**	**-**	**-**	**-**	**5,121,186**
Other assets	**637,080**	**-**	**-**	**-**	**-**	**637,080**
Total assets	**12,062,946**	**40,931,241**	**2,279,607**	**2,852,996**	**12,287,267**	**70,414,057**
Liabilities						
Due to banks	**228,802**	**551,021**	**-**	**-**	**-**	**779,823**
Customer deposits and Islamic	**16,422,228**	**17,743,034**	**6,840,680**	**6,028,806**	**1,376,444**	**48,411,192**
Notes and medium term borrowings	**-**	**2,789,067**	**1,835,376**	**-**	**1,465,220**	**6,089,663**
Due for trade acceptances	**5,121,186**	**-**	**-**	**-**	**-**	**5,121,186**
Other liabilities	**931,438**	**-**	**-**	**-**	**-**	**931,438**
Total liabilities	**22,703,654**	**21,083,122**	**8,676,056**	**6,028,806**	**2,841,664**	**61,333,302**
Interest rate sensitivity gap	**(10,640,708)**	**19,848,119**	**(6,396,449)**	**(3,175,810)**	**9,445,603**	**9,080,755**
Cumulative interest rate sensitivity gap	**(10,640,708)**	**9,207,411**	**2,810,962**	**(364,848)**	**9,080,755**	
Represented by equity						**9,080,755**
31 December 2016						
Assets						
Cash and balances with Central Bank	4,112,466	2,500,000	100,000	-	-	6,712,466
Due from banks	1,070,401	2,304,918	238,745	55,095	55,095	3,724,254
Loans and advances and Islamic financing	3,101,102	33,117,735	1,558,190	1,131,254	6,205,557	45,113,838
Provisions	(3,151,300)	-	-	-	-	(3,151,300)
Investment securities	220,418	807,516	245,304	444,810	5,700,229	7,418,277
Investment in associate	77,768	-	-	-	-	77,768
Investment properties	232,923	-	-	-	-	232,923
Property and equipment	355,211	-	-	-	-	355,211
Bankers acceptances	3,056,956	-	-	-	-	3,056,956
Other assets	539,383	-	-	-	-	539,383
Total assets	9,615,328	38,730,169	2,142,239	1,631,159	11,960,881	64,079,776
Liabilities						
Due to banks	495,615	1,027,803	36,730	-	-	1,560,148
Customer deposits and Islamic	16,175,600	17,297,137	4,475,028	4,276,020	1,550,039	43,773,824
Notes and medium term borrowings	-	1,631,596	591,799	551,442	3,305,700	6,080,537
Due for trade acceptances	3,056,956	-	-	-	-	3,056,956
Other liabilities	928,688	-	-	-	-	928,688
Total liabilities	20,656,859	19,956,536	5,103,557	4,827,462	4,855,739	55,400,153
Interest rate sensitivity gap	(11,041,531)	18,773,633	(2,961,318)	(3,196,303)	7,105,142	8,679,623
Cumulative interest rate sensitivity gap	(11,041,531)	7,732,102	4,770,784	1,574,481	8,679,623	
Represented by equity						8,679,623

33 FINANCIAL RISK MANAGEMENT (continued)

e) Market risk (continued)

Overall interest rate risk positions are managed by the Treasury and ALM Department, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's activities. Interest rate risks are assumed by ALM from the businesses through fund transfer pricing process.

f) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

Currency	Net spot Position	Forward Position	Net exposure 2017	Net exposure 2016
		AED'000		
US Dollar	**(409,799)**	**(858,382)**	**(1,268,181)**	(393,329)
GCC currencies	**92,119**	**(168,401)**	**(76,282)**	364,760
Great Britain Pound	**86,634**	**(86,388)**	**246**	(152)
Japanese Yen	**16,322**	**(16,292)**	**30**	41
Euro	**34,060**	**(35,928)**	**(1,868)**	1,171
Others	**547**	**-**	**547**	1,165

A summary of capital requirement for market risk under standardized approach of basel III is set out below:

	2017 AED'000	2016 AED'000
Foreign currency risk	**377**	486
Interest rate risk	**68,552**	12,639
	68,929	13,125

33 FINANCIAL RISK MANAGEMENT (continued)

g) Equity risk

The Group has defined in its trading book policy the instruments which the Group is allowed to trade. A limited trading activity takes place in the equity market, monitored by Risk Management and in line with investment committee (IC) recommendations. Daily stop loss limits as well as portfolio notional limits are monitored daily and reported to senior management. In addition, the Group has classified an equity portfolio as available for sale investments.

Analysis of equity portfolio:

	2017	2016
Publicly traded (quoted):	**AED'000**	AED'000
Equity	**91,160**	144,931
Privately held (unquoted):		
Funds of funds investments	**15,155**	75,487
Total	**106,315**	220,418

Analysis of gains or (losses) on equity investments:	**2017**	2016
	AED'000	AED'000
Realised gains on sale	**9,172**	27,240
Unrealised loss in P/L	**-**	-
Unrealised loss in OCI	**(27,036)**	(5,446)

The revaluation reserve on equity and funds of funds portfolio as at 31 December 2017 amounting to AED (6,777) thousand (2016: AED 20,259 thousand) was considered as Tier II capital.

Analysis of capital requirement for equity investments under standardized approach of basel III:

		2017			2016	
	AFS	**Held for trading**	**Total**	AFS	Held for trading	Total
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Equity	**9,572**	**-**	**9,572**	17,392	-	17,392
Funds of funds investment	**1,591**	**-**	**1,591**	9,058	-	9,058
Total	**11,163**	**-**	**11,163**	26,450	-	26,450

h) Operational risk

Operational risk is defined by Basel as "The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this includes legal risk but excludes strategic and reputation risks".

The Group's objective is to manage operational risk, so as to balance the avoidance of financial losses and damage to the Group's reputation, with overall cost effectiveness and to avoid control procedures that restrict initiative, innovativeness and creativity.

The primary responsibility for the overseeing the establishment of sound operational risk management framework and monitoring the operational risk profile of the Group vests with the senior management of the Group, The Bank has set up a cross functional committee named Operational Risk Management Committee (ORMC) of senior management personnel to formalize this responsibility and closely monitor key Operational Risks on a pan bank basis to support timely execution of action plans.

33 FINANCIAL RISK MANAGEMENT (continued)

h) Operational risk (continued)

Accountability and responsibility is further assigned to the heads of individual units, departments or branches. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions to eliminate scenarios involving any conflict of interest;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures pertaining to all activities of the bank;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action to avoid its future recurrence;
- Development of contingency plans to ensure continuity of business under all circumstances;
- Training and professional development of employees at all levels so as to increase their awareness of the subject;
- Ethical and business standards (through the Group's approved and functional Code of Ethics);
- Risk mitigation, including insurance wherever this is effective; and
- Whistle Blowing and Incident Reporting Policies are channels available to all staff for reporting of any loss events or other wrongdoings.

The Group has an approved framework for end-to-end management of its operational risks, which involves the active participation of the employees at all levels. The Operational Risk Management plan places an equal emphasis on the identification, assessment, control and reporting of operational risks and on quantification of potential risks and resultant losses therein, if any. Reports are produced covering Operational Risk dashboards, heat-maps, loss matrices, Operational Risk register and loss databases.

The Group has in place an operational risk management system to collate operational risk information in an automated environment; this has enabled the bank to build operational risk databases to support migration to more complex approaches for computation of operational risk capital in the future.

Group Risk Management continued its efforts towards increasing bank-wide awareness about the ORM concept, by organizing workshops, seminars and training courses on the subject, for the employees, throughout the year. On an ongoing basis, Risk and Control Self Assessments (RCSA) are being carried out by all branches and units to identify the operational risks and assess the effectiveness of existing controls, so as to plan any remedial actions (if required) and minimize recurrence of loss events.

Moreover, the Group conducts an assessment of disaster recovery and business continuity position, as well as detailed system risk assessments of all new/upgraded IT systems and assessment of Operational Risk elements in any new products to be launched or procedures to be implemented. Compliance with policies and procedures is supported by periodic reviews undertaken by Internal Audit. A review of the insurance coverage available to the Bank is undertaken to maintain oversight of adequacy of insurance as necessitated by the Basel guidelines. Regular updates are provided to the senior management and the Board Risk Committee (BRC) to support their mandate to maintain adequate oversight of the Bank's operational risk framework and status of operational risks across all areas of the Bank.

34 CAPITAL MANAGEMENT

34.1 Regulatory capital

The Group's regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are as follows:
• Safeguard the Group's ability to continue as a going concern and optimize returns for shareholders;
• Comply with regulatory capital requirements set by the Central Bank of the UAE.

The Group's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its integrated ICAAP Framework. Risks such as Interest Rate Risk in the Banking Book, Concentration Risk, Strategic Risk, Legal and Compliance Risk, Stress Risk, Insurance Risk and Reputational Risk are all part of the ICAAP.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis. RAROC calculations are also built into the Credit Appraisal System.

The Group's regulatory capital is analyzed into two tiers:

• Common equity tier 1 (CET 1) capital, which includes ordinary share capital, legal reserve, general reserve and retained earnings; and

• Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on investments classified as available-for-sale and derivatives held as cash flow hedges and collective provision.

The following limits have been applied for Tier 2 capital:

- Total Tier 2 capital shall not exceed 67% of tier 1 capital;
- Subordinated liabilities shall not exceed 50% of total Tier 1 capital; and
- Collective provision shall not exceed 1.25% of total credit risk weighted assets.

During the year 'the Central Bank' issued 'revised capital adequacy standards'. The revised regulations sets out the following minimum capital adequacy requirements.

- Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
- Minimum tier 1 ratio of 8.5% of RWAs.
- Total capital adequacy ratio of 10.5% of RWAs.

In addition to CET 1 ratio of 7% of RWAs, a capital conservation buffer (CCB) of 1.25% of RWAs shall be maintained in the form of CET 1.

Further, counter cyclical buffer (CCyB) requirement shall be met by using CET 1. The level of CCyB to be notified by 'the Central Bank'. There is no CCyB requirement during the current period.

The Group has complied with all the externally imposed capital requirements.

34 CAPITAL MANAGEMENT (continued)

34.2 Capital resources and adequacy

The table below summarizes the composition of regulatory capital and capital adequacy ratio calculation as per Basel III (2016: Basel II), of the Group:

	2017 AED'000	2016 AED'000
Capital base		
Tier 1 capital	8,452,219	8,051,424
Tier 2 capital	678,434	641,466
Total capital base	9,130,653	8,692,890
Risk weighted assets (RWA) Pillar 1		
Credit risk	55,411,527	50,668,746
Market risk	656,467	109,379
Operational risk	4,658,273	4,409,191
Risk weighted assets	60,726,267	55,187,316
Tier 1 ratio	13.92%	14.59%
Capital adequacy ratio (Pillar 1)	15.04%	15.75%

Tier 1 and Tier 2 capital are net-off mandatory deductions.
Capital adequacy ratio calculation is after netting off proposed distribution from capital base.

Risk weighted capital requirement

The Group has adopted the standardized approach for credit risk and market risk and basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk weighted capital requirement for credit, market and operational risk are given below:

(i) Risk weights for credit risk

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the Central Bank of UAE basel III Capital Adequacy Framework covering the standardized approach for credit risk. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

Funded exposure

Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable external credit assessment institutions (ECAIs), except that, for all GCC sovereigns a 0% weight has been applied.

Claims on non-commercial public sector entities (PSEs)

Domestic currency claims on GCC non-commercial PSEs were treated as claims on GCC sovereign if their Central Bank or monetary authority treats them as such. Foreign currency claims on GCC PSE were treated one grade less favorable than its sovereign i.e. 20% risk weight were applied. Claims on other foreign non-commercial PSEs were treated one grade less favorable than its sovereign.

Claims on multilateral development banks (MDBs)

All MDBs are risk weighted in accordance with each bank's credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency were assigned more favorable risk weighting.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

34 CAPITAL MANAGEMENT (continued)

34.2 Capital resources and adequacy (continued)

(i) Risk weights for credit risk (continued)

Claims on corporate and government related entities portfolio

Claims on corporate and government related entities (entities with greater than 50% government ownership) are risk weighted in accordance with ratings from acceptable ECAIs. Risk weight of 100% is applied on claims on unrated corporate and government related entities.

Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), if they meet the criteria mentioned in the Central Bank of UAE BASEL III guidelines.

Claims secured by residential property

A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million to a single borrower and the claim was secured by residential property with LTV of up to 85%. Other claims secured on residential property were risk weighted 100%.

Claims secured by commercial property

100% risk weight was applied on claims secured by commercial property.

Past due exposures

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows:

- 150% risk weight when specific provisions are less than 20% of the outstanding amount of loan;
- 100% risk weight when specific provisions are greater than 20% of the outstanding amount of loan.

Equity portfolios

0% risk weight was applied on equity in trading book. Equity in banking book was risk weighted at 100%. The aggregate investments in insurance companies (including investment in associate held as per equity accounting) amounting to AED 85,404 thousand (2016: AED 84,151 thousand) have been risk weighted in accordance with basel III.

Other exposures

These are risk weighted at 100%.

Unfunded exposure

For credit-related contingent items, the nominal value is converted to an exposure through the application of Credit Conversions Factors (CCF). The CCF is at 20%, 50% or 100% depending on the type of contingent item, and is used to convert off balance sheet notional amounts into an equivalent on balance sheet exposure.

Undrawn commitments to extend credit represent commitments that have not been drawn down or utilized at the reporting date. The nominal amount provides the calculation base to which the CCF is applied for calculating the exposure. CCF range between 20% and 50% for commitment with original maturity of up to one year and over one year respectively and 0% CCF is applicable for commitments which can be unconditionally cancelled at any time.

34 CAPITAL MANAGEMENT (continued)

34.2 Capital resources and adequacy (continued)

(i) Risk weights for credit risk (continued)

Asset classes	On & off balance sheet	Credit risk mitigation (CRM)		On & off balance sheet	Risk weighted assets
31 December 2017	Gross outstanding	Exposure before CRM	CRM	Net exposure after credit conversion factors (CCF)	
	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on sovereigns	8,435,810	8,435,810	-	8,394,898	220,311
Claims on non-commercial Public Sector Enterprises (PSEs)	840,203	840,203	-	289,253	-
Claims on banks	7,841,780	7,841,780	125	7,310,303	3,531,542
Claims on corporates and government related enterprises (GRE)	60,217,614	60,048,176	6,993,025	36,973,233	36,247,285
Claims included in the regulatory retail portfolio	4,408,688	4,408,688	134,236	4,054,154	3,157,354
Claims secured by residential property	2,259,013	2,259,013	8,494	2,213,710	1,000,481
Claims secured by commercial real estate	8,212,054	8,212,054	131,227	7,112,811	7,112,811
Past due loans	4,204,176	2,292,723	16,967	2,233,926	2,649,592
Other assets	2,015,289	1,922,590	-	1,922,590	1,492,151
TOTAL CLAIMS	98,434,627	96,261,037	7,284,074	70,504,878	55,411,527
TOTAL CREDIT RISK					55,411,527

Asset classes	On & off balance sheet	Credit risk mitigation (CRM)		On & off balance sheet	Risk weighted assets
31 December 2016	Gross outstanding	Exposure before CRM	CRM	Net exposure after credit conversion factors (CCF)	
	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on sovereigns	7,920,694	7,920,694	-	7,919,914	46,643
Claims on non-commercial Public Sector Enterprises (PSEs)	326,654	326,654	-	326,654	-
Claims on banks	9,830,482	9,830,482	-	8,405,969	3,700,018
Claims on corporates and government related enterprises (GRE)	58,501,860	58,083,684	4,291,601	37,942,308	37,317,312
Claims included in the regulatory retail portfolio	5,521,028	5,521,028	32,127	4,556,513	3,659,052
Claims secured by residential property	1,587,303	1,587,303	2,498	1,561,272	679,353
Claims secured by commercial real estate	2,543,402	2,543,402	-	2,218,189	2,218,189
Past due loans	3,524,037	1,562,243	45,240	1,468,161	1,622,476
Other assets	1,945,404	1,940,885	-	1,940,885	1,425,703
TOTAL CLAIMS	91,700,864	89,316,375	4,371,466	66,339,865	50,668,746
TOTAL CREDIT RISK					50,668,746

The Group uses the following external credit assessment institutions (ECAIs): Standard & Poor's, Moody's and Fitch. The external rating of ECAI is mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings. The Group also uses various Credit Risk Mitigation techniques (CRM). The total exposure to Banks before CRM includes AED 7,619 million (2016: AED 8,958 million) rated exposure.

34 CAPITAL MANAGEMENT (continued)

34.2 Capital resources and adequacy (continued)

(i) Risk weights for credit risk (continued)

Risk weighted assets as per standardized approach is set out below:

	2017		2016	
	Exposure	**Risk weighted assets**	Exposure	Risk weighted assets
	AED'000	**AED'000**	AED'000	AED'000
Exposure prior to CRM	**77,788,952**	**62,671,495**	70,711,331	55,036,110
Less: Eligible financial collateral	**7,284,074**	**7,259,968**	4,371,466	4,367,364
Net exposure after CRM	**70,504,878**	**55,411,527**	66,339,865	50,668,746

(ii) Risk weights for market risk

Capital requirement for market risk is calculated using standardized approach. The capital requirement for market risk is analyzed into capital requirement for interest rate risk, equity risk, foreign exchange risk and option risk.

(iii) Risk weight for operation risk

Capital requirement for operation risk is calculated using basic indicator approach. This Capital charge was computed using basic indicator approach by multiplying the three years average gross income by a predefined beta factor.

35 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these consolidated financial statements, the effect of which are considered immaterial.