

Dubai Islamic Bank P.J.S.C.

**Consolidated financial statements
for the year ended 31 December 2018**

These audited consolidated financial statements are subject to Central Bank of UAE approval and adoption by shareholders at the Annual General Meeting.

Dear Shareholders,

Assalamu Alaikum wa Rehmatullah wa Barakatahu

It is with great pleasure that we report to you, our valued shareholders, the strong financial performance that has placed DIB amongst the top 3 most profitable banks in the UAE today with 2018 net profit at a record number of over AED 5.0 billion. Our balance sheet has grown to AED 223.7 billion, showcasing a significant growth of 8% this year. As in the past, we have exceeded the financing sector growth by a wide margin growing by 8% to over AED 150 billion whilst maintaining strong liquidity with finance to deposit ratio of 93%. Consequently, DIB's market share has risen to around 10% in both financing and deposits.

As part of its global growth agenda, DIB is focused on further expanding its reach within key markets of Pakistan, Indonesia and Kenya. The recently launched Kenyan operation provides the critical base to further expand the bank's foot-print in the East Africa belt. Our vision is to bring the Emirates' homegrown appeal to markets across the world. Given our solid and healthy position, we expect our operations in "PIK" (Pakistan, Indonesia, Kenya) to continue on an upward trajectory, while connecting the dots from the Far East to South Asia to the Middle East to Africa and capturing the trade flows in particular with Dubai being the hub.

Shariah-compliant banking is on the rise in markets around the world, and DIB, being amongst the top two Shariah-compliant banks in the world, is playing a key role here. We will continue our progress in spreading the popularity of Islamic banking, educating the market on its benefits and shattering the myth that Shariah-compliant banking is limited to Muslims. Our commitment to grow the Islamic capital markets has seen DIB participate and lead nearly USD 23 billion of sukuk and syndication transactions with our book of Sukuk investments growing to AED 31.3 billion this year.

For 2019, DIB will continue to implement new initiatives, find new and innovative solutions to everyday banking challenges, and maintain our position as a global pioneer in Islamic Banking. DIB sets the standard for innovation in the Islamic Finance sector. Our global outlook and vision to be the most progressive Islamic financial institution in the world inspires us to continue making you proud of our efforts and performance. Digital transformation remains a fundamental element towards achieving our new growth agenda for 2019, driven once again by a customer-centric approach. As the world moves at an unprecedented pace towards high-tech advancements, DIB will strive to remain ahead of the competition, through agility, nimbleness and responsiveness.



بنك دبي الإسلامي
Dubai Islamic Bank

Finally, on behalf of the Board and management of the bank, I would like to thank our shareholders, customers, and employees for their continuing support of DIB in its pursuit of excellence. I wish all of you and DIB a very successful year to come.

Assalamu Alaikum wa Rehmatullah wa Barakatahu

H.E. Mohammad Ibrahim Al Shaibani

Chairman,

Dubai Islamic Bank PJSC

Dubai Islamic Bank P.J.S.C.

Report and consolidated financial statements for the year ended 31 December 2018

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Independent Auditors' Report

To the Shareholders of Dubai Islamic Bank P.J.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Dubai Islamic Bank P.J.S.C. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. 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.

Key Audit Matters (continued)

Impairment of Islamic financing and investing assets

Refer to note 5.26 for transition impact and note 5, 9 and 48 of the consolidated financial statements.

The Expected Credit Loss ("ECL") requirements of IFRS 9 "Financial Instruments" (IFRS 9) were adopted by the Group on 1 January 2018 and have resulted in:

- change in accounting for impairment from an incurred loss model to an ECL model which involves complex estimates and judgements;
- transition adjustments recognised in retained earnings on 1 January 2018, being the date of adoption of IFRS 9;
- use of statistical models and methodologies for determination of expected credit losses;
- significant change in processes, data and controls that have not been subject to testing previously; and
- complex disclosure requirements regarding impact of initial application of IFRS 9 and explanation of key judgements and material inputs used in determination of expected credit losses.

Given the inherently judgemental nature of computation of ECL for Islamic financing and investing assets, this is considered a key audit matter.

Our response

We have performed end to end process walkthroughs to identify the key systems, applications and controls used in the ECL Process and to understand the governance framework around model review, validation and approval of ECL models, data gathering and its integrity and underlying estimates and assumptions used by the management.

Our procedures included the following:

- Testing key controls over the modelling process, including model review, validation and approval;
- Testing key controls over the accuracy of key inputs and appropriateness of key assumptions and judgements used in the model;
- Testing key controls over significant increase in credit risk ("SICR") criteria which involved testing controls relating to authorisation of the criteria and the application of the criteria in the models;
- Testing key controls over internal credit grading (which is a key driver in determining SICR) and monitoring process, to assess if the risk grades allocated to counterparties were appropriately identified and updated on a timely basis;
- Testing key controls relating to the selection and implementation of material economic variables and the controls over the scenario selection and probabilities;
- Testing key controls over the assessment of model outputs and authorisation and review of post model adjustments and management overlays.



Key Audit Matters (continued)

Impairment of Islamic financing and investing assets (continued)

Our response (continued)

- We involved our Financial Risk Modelling ("FRM") specialists to review the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling. This typically included challenging key assumptions/judgements relating to significant increase in credit risk, definition of default, probability of default, recovery rates, use of macro-economic variables and probability weighted outcomes. FRM specialists also re-performed key elements of the Group's model calculations and evaluated the model performance results for accuracy; and
- We have involved our Information Technology ("IT") specialists to assist in testing the relevant General IT and Application Controls over Key Systems used in the ECL Process;
- Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weights to confirm the accuracy of information used;
- Re-performing key aspects of the Bank's SICR determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified;
- Selecting a sample of key post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing source data on a sample basis;
- Performing credit assessments for a sample of selected customers, including Stage 3 customers, to test the appropriateness of the credit grades at a given point in time and assess the financial performance of the borrower, source of repayment and future cash flows of the borrower to assess recoverability and ECL by comparing key assumptions to progress against business plans and our own understanding of relevant industries and business environment and where possible to externally derived evidence such as business performance and real estate valuations for assessing the appropriateness of collateral values held by the bank; and
- Assessing the adequacy of the Group's disclosure in relation to transition impact arising from first time application of IFRS 9 and use of significant estimates and judgement by reference to the requirements of the relevant accounting standards.



Valuation of investment properties and properties held-for-sale

Refer to note 13 and 14 of the consolidated financial statements.

The Group's accounting policy is to state its investment properties at cost less accumulated depreciation and impairment and properties held-for-sale at lower of cost or net realizable value at each reporting date.

Due to the significance of these properties, the general slowdown in the UAE real estate sector and the impact of potential impairment losses on the consolidated statement of profit or loss and related estimation uncertainty, this is considered a key audit matter.

The valuation of the portfolio is a significant judgement area and is underpinned by a number of assumptions. The existence of significant estimation uncertainty warrants specific audit focus in this area as any bias or error in determining the carrying value, whether deliberate or not, could lead to an understatement of profit or loss for the year.

Our response

Our procedures included the following:

- We assessed the competence, independence and integrity of the external valuers and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;
- For properties, whose valuation is more than one year old, performed desktop evaluation to assess whether the fair values have not declined below the respective book values;
- We obtained the external valuation reports for a sample of properties and confirmed that the valuation approach is in accordance with RICS' and suitable for use in determining the carrying value in the consolidated statement of financial position;
- We carried out procedures, on a sample of properties in the portfolio, to test whether property specific standing data supplied to the external valuers by management reflected the underlying property records held by the Group and which has been tested during our audit;
- On the same sample of properties, assessed the reasonableness of any adjustments/assumptions used by the valuers and the reasonableness of the present value calculation rates/capitalization rates applied on income streams generated by the properties; and
- Based on the outcome of our evaluation we determined the adequacy of the disclosure in the consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditors' report, and the Fatwa and Sharia Supervision Board's report ("the Reports") which are expected to be made available to us after that date.



Other information (continued)

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 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 have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and their preparation in compliance with the applicable provisions of 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.

Auditors' 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.



*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
(continued)*

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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.
- 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.



*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
(continued)*

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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.

Report on Other Legal and Regulatory Requirements

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

- we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Group has maintained proper books of account;
- the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- as disclosed in note 11 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2018;
- note 43 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Articles of Associations, which would materially affect its activities or its consolidated financial position as at 31 December 2018; and
- note 31 to the consolidated financial statements discloses the social contributions made during the year.



Report on Other Legal and Regulatory Requirements (continued)

Further, as required by Article (14) of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Dubai, United Arab Emirates
Date: **30 JAN 2019**

Dubai Islamic Bank P.J.S.C.

Consolidated statement of financial position as at 31 December 2018

	Note	2018 AED'000	2017 AED'000
ASSETS			
Cash and balances with central banks	7	22,545,526	27,885,248
Due from banks and financial institutions	8	8,297,032	4,676,952
Islamic financing and investing assets, net	9	144,738,585	133,334,227
Investments in Islamic sukuk measured at amortised cost	10	31,178,525	24,022,680
Other investments measured at fair value	11	1,687,824	1,961,733
Investments in associates and joint ventures	12	1,928,629	2,135,931
Properties held for development and sale	13	1,448,975	1,274,406
Investment properties	14	4,495,054	3,570,154
Receivables and other assets	15	6,047,770	7,339,199
Property and equipment	16	1,314,239	1,136,479
Total assets		223,682,159	207,337,009
LIABILITIES AND EQUITY			
LIABILITIES			
Customers' deposits	18	155,657,316	147,180,951
Due to banks and financial institutions	19	13,203,228	14,877,554
Sukuk issued	20	12,370,968	8,658,707
Payables and other liabilities	21	8,018,701	7,458,907
Zakat payable	23	305,202	280,372
Total liabilities		189,555,415	178,456,491
EQUITY			
Share capital	24	6,589,585	4,942,189
Tier 1 sukuk	25	7,346,000	7,346,000
Other reserves and treasury shares	26	10,860,963	7,785,557
Investments fair value reserve	27	(850,362)	(615,389)
Exchange translation reserve	28	(1,051,515)	(484,615)
Retained earnings		8,568,606	6,964,089
Equity attributable to owners of the Bank		31,463,277	25,937,831
Non-controlling interests	17.3	2,663,467	2,942,687
Total equity		34,126,744	28,880,518
Total liabilities and equity		223,682,159	207,337,009


H.E. Mohammad Ibrahim Al Shaibani
Chairman


Abdulla Ali Al Hamli
Managing Director


Dr. Adnan Chilwan
Group Chief Executive Officer

The notes on pages 16 to 100 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 2 to 9.

Dubai Islamic Bank P.J.S.C.

Consolidated statement of profit or loss for the year ended 31 December 2018

	<i>Note</i>	2018 AED'000	2017 AED'000
NET INCOME			
Income from Islamic financing and investing transactions	31	9,481,215	7,794,582
Commissions, fees and foreign exchange income	32	1,475,949	1,406,507
Income from other investments measured at fair value, net	33	45,085	31,038
Income from properties held for development and sale, net	34	123,804	196,629
Income from investment properties	35	155,522	118,637
Share of profit from associates and joint ventures	12.5	137,496	122,050
Other income	36	310,691	529,342
Total income		11,729,762	10,198,785
Less: depositors' and sukuk holders' share of profit	37	(3,528,057)	(2,511,671)
Net income		8,201,705	7,687,114
OPERATING EXPENSES			
Personnel expenses	38	(1,580,496)	(1,568,090)
General and administrative expenses	39	(607,804)	(602,378)
Depreciation of investment properties	14.1	(35,148)	(45,723)
Depreciation of property and equipment	16	(98,554)	(119,451)
Total operating expenses		(2,322,002)	(2,335,642)
Net operating income before net impairment charges and taxation		5,879,703	5,351,472
Impairment charges, net	40	(833,471)	(823,453)
Profit for the year before income tax expense		5,046,232	4,528,019
Income tax expense	22.3	(42,414)	(24,439)
Net profit for the year		5,003,818	4,503,580
Attributable to:			
Owners of the Bank		4,916,313	4,322,195
Non-controlling interests	17.3	87,505	181,385
Net profit for the year		5,003,818	4,503,580
Basic and diluted earnings per share (AED per share)	41	0.72	0.69

The notes on pages 16 to 100 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 2 to 9.

Dubai Islamic Bank P.J.S.C.

Consolidated statement of comprehensive income for the year ended 31 December 2018

	2018 AED'000	2017 AED'000
Net profit for the year	5,003,818	4,503,580
<i>Other comprehensive income / (loss) items</i>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations, net	(566,900)	(21,841)
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Fair value (loss) / income on other investments carried at FVTOCI, net	(236,091)	134,942
Other comprehensive (loss) / income for the year	(802,991)	113,101
Total comprehensive income for the year	4,200,827	4,616,681
Attributable to:		
Owners of the Bank	4,114,528	4,436,603
Non-controlling interests	86,299	180,078
Total comprehensive income for the year	4,200,827	4,616,681

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Dubai Islamic Bank P.J.S.C.

Consolidated statement of changes in equity for the year ended 31 December 2018

	-----Equity attributable to owners of the Bank-----								
	Share capital AED'000	Tier 1 sukuk AED'000	Other reserves and treasury shares AED'000	Investments fair value reserve AED'000	Exchange translation reserve AED'000	Retained earnings AED'000	Total AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at 1 January 2017	4,942,189	7,346,000	7,785,557	(751,672)	(462,774)	5,641,061	24,500,361	2,768,855	27,269,216
Net profit for the year	-	-	-	-	-	4,322,195	4,322,195	181,385	4,503,580
Other comprehensive income / (loss) for the year	-	-	-	136,249	(21,841)	-	114,408	(1,307)	113,101
Total comprehensive income / (loss) for the year	-	-	-	136,249	(21,841)	4,322,195	4,436,603	180,078	4,616,681
Transaction with owners directly in equity:									
Dividend paid (note 29)	-	-	-	-	-	(2,219,403)	(2,219,403)	(3,112)	(2,222,515)
Zakat (note 23)	-	-	-	-	-	(282,880)	(282,880)	(3,187)	(286,067)
Tier 1 sukuk profit distribution	-	-	-	-	-	(477,490)	(477,490)	-	(477,490)
Board of Directors' remuneration	-	-	-	-	-	(19,360)	(19,360)	-	(19,360)
Transfer on disposal of other investments carried at FVTOCI	-	-	-	34	-	(34)	-	53	53
Balance at 31 December 2017	4,942,189	7,346,000	7,785,557	(615,389)	(484,615)	6,964,089	25,937,831	2,942,687	28,880,518
Balance at 1 January 2018	4,942,189	7,346,000	7,785,557	(615,389)	(484,615)	6,964,089	25,937,831	2,942,687	28,880,518
Cumulative effect of adopting IFRS 9 (note 5.26.3)	-	-	(381,861)	-	-	(296,559)	(678,420)	(364,665)	(1,043,085)
Balance at 1 January 2018 - restated	4,942,189	7,346,000	7,403,696	(615,389)	(484,615)	6,667,530	25,259,411	2,578,022	27,837,433
Net profit for the year	-	-	-	-	-	4,916,313	4,916,313	87,505	5,003,818
Other comprehensive loss for the year	-	-	-	(234,885)	(566,900)	-	(801,785)	(1,206)	(802,991)
Total comprehensive (loss) / income for the year	-	-	-	(234,885)	(566,900)	4,916,313	4,114,528	86,299	4,200,827
Transaction with owners directly in equity:									
Dividend paid (note 29)	-	-	-	-	-	(2,219,403)	(2,219,403)	(2,723)	(2,222,126)
Zakat (note 23)	-	-	-	-	-	(304,947)	(304,947)	(51)	(304,998)
Issue of right shares	1,647,396	-	3,465,406	-	-	(1,123)	5,111,679	-	5,111,679
Tier 1 sukuk profit distribution	-	-	-	-	-	(477,490)	(477,490)	-	(477,490)
Regulatory credit risk reserve	-	-	(8,139)	-	-	8,139	-	-	-
Board of Directors' remuneration	-	-	-	-	-	(20,501)	(20,501)	-	(20,501)
Others	-	-	-	-	-	-	-	1,920	1,920
Transfer on disposal of other investments carried at FVTOCI	-	-	-	(88)	-	88	-	-	-
Balance at 31 December 2018	6,589,585	7,346,000	10,860,963	(850,362)	(1,051,515)	8,568,606	31,463,277	2,663,467	34,126,744
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The notes on pages 16 to 100 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on pages 2 to 9.

Dubai Islamic Bank P.J.S.C.

Consolidated statement of cash flows for the year ended 31 December 2018

	2018 AED'000	2017 AED'000
Operating activities		
Profit for the year before income tax expense	5,046,232	4,528,019
Adjustments for:		
Share of profit of associates and joint ventures	(137,496)	(122,050)
Gain from disposal of properties held for development and sale	(123,804)	(196,629)
Dividend income	(45,351)	(31,682)
Loss on disposal of other investments measured at fair value	306	650
Revaluation of investments at fair value through profit or loss	15	24
Gain on sale of investments in Islamic sukuk measured at amortised cost	(8,566)	(276,510)
Gain on disposal of property and equipment	(179)	(180)
Gain on disposal of investment properties	(64,338)	(29,268)
Depreciation of property and equipment	98,554	119,451
Depreciation of investment properties	35,148	45,723
Amortisation of sukuk discount	2,857	128
Provision for employees' end-of-service benefits	23,953	18,721
Impairment charge for the year, net	835,530	823,453
Operating cash flow before changes in operating assets and liabilities	5,662,861	4,879,850
Decrease in deposits and international murabahas with over three months maturity	71,319	-
Increase in Islamic financing and investing assets	(13,794,569)	(19,734,746)
Decrease / (increase) in receivables and other assets	542,915	(1,044,727)
Increase in customers' deposits	9,628,130	25,083,081
Increase / (decrease) in due to banks and other financial institutions	2,132,863	(584,608)
Increase in payables and other liabilities and zakat payable	310,699	231,870
Cash generated from operations	4,554,218	8,830,720
Employees' end-of-service benefits paid	(14,795)	(17,897)
Tax paid	(50,418)	(34,547)
Net cash generated from operating activities	4,489,005	8,778,276
Investing activities		
Net movement in investments in Islamic sukuk measured at amortised cost	(7,544,444)	(412,039)
Net movement in other investments measured at fair value	35,617	17,186
Dividend received	45,351	31,682
Additions to properties held for development and sale	(463,708)	(452,056)
Proceeds from disposal of properties held for development and sale	412,845	666,701
Additions to investment properties	(549,580)	(297,503)
Movement in investments in associates and joint ventures	(109,481)	21,373
Additions of property and equipment	(292,875)	(339,320)
Proceeds from disposal of property and equipment	3,918	-
Proceeds from disposal of investment properties	27,004	66,574
Net cash used in investing activities	(8,435,353)	(697,402)

The notes on pages 16 to 100 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 2 to 9.

Dubai Islamic Bank P.J.S.C.

Consolidated statement of cash flows (continued) for the year ended 31 December 2018

	2018 AED'000	2017 AED'000
Financing activities		
Dividend paid	(2,222,126)	(2,222,515)
Right shares issuance, net	5,111,679	-
Tier 1 sukuk profit distribution	(477,490)	(477,490)
Issuance of sukuk	3,740,869	3,810,599
Payment of sukuk	-	(2,847,175)
Net cash generated from / (used in) financing activities	6,152,932	(1,736,581)
Net increase in cash and cash equivalents	2,206,584	6,344,293
Cash and cash equivalents at the beginning of the year	21,728,434	15,411,356
Effect of exchange rate changes on the balance of cash held in foreign currencies	(47,718)	(27,215)
Cash and cash equivalents at the end of the year (note 42)	23,887,300	21,728,434

The notes on pages 16 to 100 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 2 to 9.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

1. Legal status and principal activity

Dubai Islamic Bank (Public Joint Stock Company) (the “Bank”) was incorporated by an Amiri Decree issued on 29 Safar 1395 Hijri, corresponding to 12 March 1975 by His Highness, the Ruler of Dubai, to provide banking and related services based on Islamic Sharia’a principles. It was subsequently registered under the Commercial Companies Law number 8 of 1984 (as amended) as a Public Joint Stock Company.

The accompanying consolidated financial statements combine the activities of the Bank and its subsidiaries as disclosed in note 17.1 (together referred to as the “Group”).

The Bank is listed on the Dubai Financial Market (Ticker: “DIB”).

The Group is primarily engaged in corporate, retail and investment banking activities and carries out its operations through its local branches and overseas subsidiaries. The principal activities of the Group entities are described in note 17.1 to these consolidated financial statements.

The registered head office of the Bank is at P.O. Box 1080, Dubai, United Arab Emirates.

2 Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised IFRSs applied on the consolidated financial statements

The following revised IFRSs have been adopted in these consolidated financial statements. The application of these revised IFRSs did not have any material impact on the amounts reported except as disclosed in relevant notes:

- Amendments to IAS 40 Investment Property relating to when a transfer to or from an investment property is made.
- Revised version of IFRS 9 relating to the recognition of expected credit losses based on three stage model for measurement of impairment.

2.2 New and revised standards in issue but not yet effective

The Group has not early adopted the following new and revised standards that have been issued but are not yet effective.

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
IFRS 16 <i>Leases</i> : IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019

The Group has assessed the impact of above standard. Based on the assessment, the standard has no material impact on the consolidated financial statements of the Group as at the reporting date.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

3 Definitions

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

3.1 Murabaha

A contract whereby the Group (the “Seller”) sells an asset to its customer (the “Purchaser”), on a deferred payment basis, after purchasing the asset and gaining possession thereof and title thereto, where the Seller has purchased and acquired that asset, based on a promise received from the Purchaser to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha sale price comprises the cost of the asset and a pre-agreed profit amount. Murabaha profit is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding. The Murabaha sale price is paid by the Purchaser to the Seller on an installment basis over the period of the Murabaha as stated in the contract.

3.2 Salam finance

A contract whereby the Group purchases a fixed quantity of a specified commodity and pays the full Salam price of the commodity in advance, whereas the customer delivers the quantity of the commodities in accordance with an agreed delivery schedule. The Group makes profit on Salam transactions, when the Salam commodities are received from the Salam customer and subsequently sold to a third party at profit. Salam profit is internally accounted for on a time-apportioned basis over the period of the Salam contract based on the value of the outstanding Salam commodities.

3.3 Istisna’a

A sale contract between two parties whereby the Group (the “Sani” or “Seller”) undertakes to construct, for its customer (the “Mustasni” or “Purchaser”), a specific asset or property (being “Al-Masnoo”) according to certain pre-agreed specifications to be delivered during a pre-agreed period of time in consideration of a pre-determined price, which comprises the cost of construction and a profit amount. The work undertaken is not restricted to be accomplished by the Sani’ alone and the whole or part of the construction/development can be undertaken by third parties under the control and responsibility of the Sani’. Under an Istisna’a contract the Group could be the Sani’ or the Mustasni’. Istisna’a profit (difference between the sale price of Al-Masnoo to the customer and the Group total Istisna’a cost) is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding.

3.4 Ijarah

3.4.1 Ijarah Muntahiya Biltamleek

An agreement whereby the Group (the “Lessor”) leases an asset to its customer (the “Lessee”) (after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer’s request and based on his promise to lease), against certain rental payments for specific lease term/periods, payable on fixed or variable rental basis.

The Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation and the timing of rental payment. The Lessee undertakes under this agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

Ijarah rentals accrue upon the commencement of the lease and continues throughout the lease term based on the outstanding fixed rental (which predominantly represent the cost of the leased asset).

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

3 Definitions (continued)

3.4 Ijarah (continued)

3.4.2 Forward Ijarah

Forward Ijarah (Ijarah Mausoofa Fiz Zimma) is an agreement whereby the Group (the “Lessor”) agrees to provide, on a specified future date, a certain described asset on lease to its customer (the “Lessee”) upon its completion and delivery by the developer, contractor or customer, from whom the Group has purchased the same, by way of Istisna.

The Forward Ijarah agreement specifies the description of the leased asset, duration of the lease term, and the basis for rental calculation and the timing of rental payment.

During the construction period, the Group pays to the developer/contractor one payment or multiple payments, Forward Ijarah profit during the construction period will be accounted for on a time-apportioned basis over the construction period on account of rentals. These profit amounts are received either during the construction period as advance rental payment or with the first or second rental payment after the commencement of the lease.

The lease rental under Forward Ijarah commences only upon the Lessee having received possession of the leased asset from the Lessor. The Lessee undertakes under the Forward Ijarah agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Forward Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

3.5 Musharaka

An agreement between the Group and its customer, whereby both parties contribute towards the capital of the Musharaka (the “Musharaka Capital”). The Musharaka Capital may be contributed in cash or in kind, as valued at the time of entering into the Musharaka. The subject of the Musharaka may be a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to a pre-agreed profit distribution ratio as stipulated under the Musharaka agreement. In principle Musharaka profit is distributed on declaration/distribution by the managing partner. However, since the Musharaka profit is always reliably estimated, it is internally accounted for on a time-apportioned basis over the Musharaka tenure based on the Musharaka Capital outstanding. Whereas the loss, if any, is shared in proportion to their capital contribution ratios, provided in the absence of the managing partner’s negligence, breach or default, the Group receives satisfactory evidence that such loss was due to force majeure and that the managing partner neither was able to predict the same nor could have prevented the negative consequences of the same on the Musharaka.

3.6 Mudaraba

A contract between two parties whereby one party is a fund provider (the “Rab Al Mal”) who would provide a certain amount of funds (the “Mudaraba Capital”), to the other party (the “Mudarib”). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit, if any. The Rab Al Mal is not involved in the management of the Mudaraba activity. In principle Mudaraba profit is distributed on declaration/distribution by the Mudarib. However, since the Mudaraba profit is always reliably estimated it is internally accounted for on a time-apportioned basis over the Mudaraba tenure based on the Mudaraba Capital outstanding. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal, provided the Rab Al Mal receives satisfactory evidence that such loss was due to force majeure and that the Mudarib neither was able to predict the same nor could have prevented the negative consequences of the same on the Mudaraba. Under the Mudaraba contract the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

3 Definitions (continued)

3.7 Wakala

An agreement between two parties whereby one party is a fund provider (the “Muwakkil”) who provides a certain amount of money (the “Wakala Capital”) to an agent (the “Wakeel”), who invests the Wakala Capital in a Sharia’a compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel. The Wakeel is entitled to a fixed fee (the “Wakala Fee”) as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, wakala profit is distributed on declaration/distribution by the Wakeel. However, since the Wakala profit is always reliably estimated it is internally accounted for on a time-apportioned basis over the Wakala tenure based on the Wakala Capital outstanding. The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement the Group may act either as Muwakkil or as Wakeel, as the case may be.

3.8 Sukuk

These comprise asset backed, Sharia’a compliant trust certificates.

4 Basis of preparation

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standard Board (IASB) and applicable requirements of the laws of the U.A.E., including the UAE Federal Law No 2 of 2015 (“UAE Companies Law of 2015”) and the Decretal Federal Law No. (14) of 2018.

4.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as explained in the accounting policies below.

4.3 Functional and reporting currency

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

The principal accounting policies applied in preparation of these consolidated financial statements are set out below.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies

5.1 Basis of consolidation

5.1.1 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date i.e., when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of Islamic financing or equity instruments.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

5.1.2 Subsidiary

These consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group. Control is achieved when the Group has:

- power over the investee;
- exposure, or has rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Group reassesses 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 listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group voting rights in an investee are sufficient to give it power, including:

- the size of the Group holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributable to the owners of the Group and to the non-controlling interests.

Total comprehensive income of the subsidiaries is attributable to the owners of the group and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group accounting policies.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.1 Basis of consolidation (continued)

5.1.2 Subsidiary (continued)

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Changes in the Group ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to owners of the Group.

5.1.3 Foreign currencies

In preparing the consolidated financial statements, each individual Group entity's transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in the consolidated statement of profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to the consolidated statement of profit or loss on settlement of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group foreign operations are translated into Arab Emirates Dirham, which is the Group presentation currency, using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group is reclassified to the consolidated statement of profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated statement of profit or loss.

Fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.1 Basis of consolidation (continued)

5.1.4 Loss of control

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 (issued in 2010), when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

5.1.5 Special purpose vehicles (“SPVs”)

Special purpose vehicles are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of assets, or the execution of a specific Islamic financing transaction. An SPV is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPV’s risk and rewards, the Group concludes that it controls the SPV.

5.1.6 Fiduciary activities

The Group acts as trustee/manager and in other capacities that result in holding or placing of assets in a fiduciary capacity on behalf of trusts or other institutions. Such assets and income arising thereon are not included in the Group consolidated financial statements as they are not assets of the Group.

5.2 Financial instruments

5.2.1 Initial recognition

Financial assets and liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

5.2.2 Initial measurement

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of profit or loss.

5.3 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.1 Classification of financial assets

Balances with central banks, due from banks and financial institutions, Islamic financing and investing assets, investments in Islamic sukuk and certain items in receivables and other assets that meet the following conditions are subsequently measured at amortised cost less impairment loss and deferred income, if any (except for those assets that are designated as at fair value through profit or loss on initial recognition):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

5.3.2 Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchases financial assets going forward.

Financial assets that are held for sale or managed and whose performance is evaluated on a fair value basis are measured at FVTOCI because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

5.3.3 Cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic financing arrangement. Contractual cash flows are consistent with a basic financing arrangement if they represent cash flows that are solely payments of principal and profit on the principal amount outstanding.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs (e.g. liquidity risk and administrative costs), as well as profit rate margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.4 Amortised cost and effective profit rate method

The effective profit rate method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income over the relevant period. The effective profit rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financing and investing instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

Income is recognised in the consolidated statement of profit or loss on an effective profit rate basis for financing and investing instruments measured subsequently at amortised cost.

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

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in sharia compliant equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is an Islamic derivative that is not designated and effective as an Islamic hedging instrument or a financial guarantee.

FVTOCI assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income. The cumulative gain or loss will not be reclassified to profit or loss on disposals.

5.3.6 Debt instruments at fair value through other comprehensive income (FVTOCI)

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit income and foreign exchange gains and losses are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

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

Investments in sharia compliant equity instruments are classified as at FVTPL, unless the Group designates an investment at fair value through other comprehensive income (FVTOCI) on initial recognition.

Financial assets (other than equity instruments) that do not meet the amortised cost criteria are measured at FVTPL. In addition, financial assets (other than equity instruments) that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. Financial assets (other than equity instruments) may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

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

The Group has not designated any financial assets (other than equity instruments) as at FVTPL.

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit/loss. The net gain or loss recognised in the consolidated statement of profit or loss is included in the 'gain from other investments at fair value' line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 47.2.1 to these consolidated financial statements.

5.3.8 Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Accordingly:

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in consolidated statement of profit or loss; and
- for financial assets that designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated financial instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

5.3.9 Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at each reporting date.

The Bank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments that are measured at amortised cost:

- Islamic financing and investing assets and investment in Islamic sukuk;
- Off-balance sheet instruments issued;
- Financial guarantee contracts issued;
- Due from banks and financial institutions;
- Balances with Central Banks; and
- Other financial assets

Financial assets migrate through three stages based on the change in credit risk since initial recognition.

No impairment loss is recognised on equity investments.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.9 Impairment of financial assets (continued)

Excepted credit loss impairment model

The Expected Credit Loss (ECL) model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

- Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. The 12 months ECL is calculated as the portion of life time ECL that represents the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12 months ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12 month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original effective profit rate.
- Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. The PD and LGD are estimated over the lifetime of the instrument and the expected cash shortfalls are discounted by an approximation to the original effective profit rate.
- Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets, with the PD set at 100%.

When estimating ECL for undrawn commitments, the Bank estimates the expected portion of the commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the financing is drawn down. The expected cash shortfalls are discounted at an approximation to the expected effective profit rate on the financing.

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted rate relevant to the exposure.

The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

Measurement of ECL

The Bank calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective profit rate. A cash shortfall is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive. IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Bank has developed methodologies and models taking into account the relative size, quality and complexity of the portfolios.

These parameters are generally derived from internally developed statistical models and other historical data and are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

- The probability of default (PD) is an estimate of the likelihood of default over a given time horizon;
- The exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date; and

The loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.9 Impairment of financial assets (continued)

Macroeconomic factors, forward looking information and multiple scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted financing are expected to be recovered, including the probability that the financing will cure and the value of collateral or the amount that might be received for selling the asset.

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- Average oil prices
- Non-oil Economic Composite Index (ECI) of UAE
- Economic composite index of UAE
- Real estate prices of Dubai and Abu Dhabi
- Dubai hotel room occupancy

Macroeconomic factors and forward looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Assessment of significant increase in credit risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial assets at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant and at the segment level for retail exposures.

The group of assets are moved from stage 1 to stage 2 if:

- the probability of default changes beyond the Bank's established threshold related to the initial recognition;
- an instrument is past due beyond 30 days; and
- an instrument's credit risk is considered higher based on qualitative criteria of the Bank.

The instruments moved to stage 2 from stage 1 remain in the stage until they perform for a sustained period as per Bank's policy.

Movement from stage 2 to stage 3 are based on whether the financial assets are credit impaired at the reporting date. The determination of the credit impairment remains unchanged in IFRS 9 consistent with IAS 39.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.9 Impairment of financial assets (continued)

Experienced credit judgement

The Bank's ECL allowance methodology requires the use of experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

When measuring ECL, the Bank considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options.

Default definition followed by the Bank for impairment assessment remains in line with the guidelines of IFRS 9, without any recourse to the assumptions, and consistent with regulatory requirements.

Expected life

When measuring expected credit loss, the Bank considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

Definition of default

The Bank considers a financial asset to be in default when:

- it is established that due to financial or non-financial reasons the borrower is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due 90 days or more on any material credit obligation to the Bank.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- (i) qualitative - e.g. material breaches of covenant;
- (ii) quantitative - e.g. overdue status and non-payment on another obligation of the same customer / customer group to the banks; and
- (iii) based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financing exposure is in default and their significance may vary over time to reflect changes in circumstances.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.9 Impairment of financial assets (continued)

Renegotiated financing facilities

The Bank sometimes makes concessions or modifications to the original terms of financing as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a financing forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants or that a customer may not be in a position to honour contractual commitments. Forbearance may involve extending the payment arrangements and the agreement of new financing conditions. Once the terms have been renegotiated, any impairment is measured using the original effective profit rate as calculated before the modification of terms. It is the Bank's policy to monitor forborne financing to help ensure that future payments continue to be likely to occur. Classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a financing, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the financing has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period. In order for the financing to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing;
- The probation period of one year has passed from the date the forborne contract was considered performing; and
- Regular payments of more than an insignificant amount of principal or interest have been made during the probation period.

Impairment policy applicable before 1 January 2018

Financial assets (including Islamic financing and investing assets, investments in Islamic sukuk, balances due from banks and financial institutions, balances with central banks and other assets) that are measured at amortised cost are assessed for impairment at each reporting date. Financial assets measured at amortised cost are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include, however not limited to:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in profit or principal payments;
- it becoming probable that the customer will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, calculated using the financial asset's original effective profit rate.

The carrying amount of the financial asset measured at amortised cost is reduced by the impairment loss directly for all financial assets with the exception of Islamic financing and investing assets, where the carrying amount is reduced through the use of an impairment allowance account. When the Islamic financing and investing assets are considered uncollectible, it is written off against the impairment allowance account. Subsequent recoveries of amounts previously written off are credited against the impairment allowance account. Changes in the carrying amount of the impairment allowance account are recognised in the consolidated statement of profit or loss.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.9 Impairment of financial assets (continued)

Impairment policy applicable before 1 January 2018 (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Islamic financing and investing assets (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised Islamic financing and investing assets, when the proceeds from realizing the security have been received.

Impairment of Islamic financing and investing assets measured at amortised cost is assessed by the Group as follows:

Individually assessed Islamic financing and investing assets

Individually assessed Islamic financing and investing assets mainly represent corporate and commercial assets which are assessed individually in order to determine whether there exists any objective evidence that an Islamic financing and investing asset is impaired. Islamic financing and investing assets are classified as impaired as soon as there is doubt about the customer's ability to meet payment obligations to the Group in accordance with the original contractual terms. Doubts about the customer's ability to meet payment obligations generally arise when:

- Principal and profit are not serviced as per contractual terms; and
- When there is significant deterioration in the customer's financial condition and the amount expected to be realised from disposals of collaterals, if any, are not likely to cover the present carrying value of the Islamic financing and investing assets.

Impaired Islamic financing and investing assets are measured on the basis of the present value of expected future cash flows calculated using Islamic financing and investing asset's original effective profit rate or, as a practical expedient, at the Islamic financing and investing asset's observable market price or fair value of the collaterals if the Islamic financing and investing asset's is collateral dependent. Impairment loss is calculated as the difference between the Islamic financing and investing asset's carrying value and its present impaired value.

Retail Islamic financing and investing assets with common features and which are not individually significant

Collective impairment is made to cover impairment against specific group of assets where there is a measurable decrease in estimated future cash flows by applying a formula approach which allocates progressively higher loss rates in line with the overdue instalment date.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.10 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised Islamic financing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated statement of profit or loss.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve in equity is not reclassified to the consolidated statement of profit or loss, but is transferred to retained earnings within equity.

5.3.11 Financial guarantees, letters of credit and undrawn financing commitments

The Bank issues financial guarantees, letters of credit and financing commitments in the normal course of business. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement and an ECL provision.

Undrawn financing commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a financing with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements.

5.4 Offsetting

Financial assets and liabilities are offset and reported net in the consolidated financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either 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 by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group trading activity.

The Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

5.5 Classification of financial liabilities and equity instruments

Liability and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.6 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are recognised and deducted directly in equity. No gain or loss is recognised in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Tier 1 sukuk are perpetual Mudaraba sukuk which are not redeemable by sukukholders and bear an entitlement to profit distributions that is non-cumulative and at the discretion of the Board of Directors. Accordingly tier 1 sukuk are presented as a component of equity instruments issued by the Group in equity.

Dividends on ordinary shares and profit distribution to tier 1 sukuk are recognised as a liability and deducted from equity when they are approved by the Group shareholders and Board of Directors, respectively. Dividends for the year that are approved after the reporting date are disclosed as an unadjusting event after the reporting date.

5.7 Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective profit rate method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantees issued by the Group, and commitments issued by the Group to provide a facility at below-market profit rate are measured in accordance with the specific accounting policies set out below.

5.7.1 Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective profit rate method.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating customers' share of profit over the relevant period. The effective profit rate is the rate that is used to calculate the present value of estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs through the expected life of the financial liability, or (where appropriate) a shorter period, to arrive at the net carrying amount on initial recognition.

Financial liabilities measured at amortised cost include due to banks and financial institutions, customers' deposits, sukuk instruments, certain payables and other liabilities.

5.7.2 Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated statement of profit or loss.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.7 Financial liabilities (continued)

5.7.3 Financial guarantee

A financial guarantee is an undertaking/commitment that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the guarantee, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

5.7.4 De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, if any, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of profit or loss.

5.8 Islamic derivative financial instruments

An Islamic derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Group enters into a variety of Islamic derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and Islamic profit rate swap.

Islamic derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All Islamic derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Islamic derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right to setoff exists, and the parties intend to settle the cash flows on a net basis.

Islamic derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the Islamic derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether Islamic derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of Islamic derivatives held for trading are recognised in consolidated statement of profit or loss.

5.9 Unilateral promises to buy/sell currencies (the "Promises")

The Promises are stated at fair value. The fair value of a Promise is the equivalent of the unrealised gain or loss from marking to market the Promise using prevailing market rates. Promises with positive market value (unrealised gain) are included in other assets and Promises with negative market value (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Banks, deposits and balances due from banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

5.11 Investments in associates and joint ventures

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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

On acquisition of the investment in an associate or a joint venture, any excess of the cost of acquisition over the Group share of the net fair value of the identifiable assets, liabilities and contingent liabilities of associates and joint ventures recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated statement of profit or loss in the period in which the investment is acquired.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting from the date on which the investment becomes an associate or joint venture. Under the equity method, an investment in associates and joint ventures is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group share of the profit or loss and other comprehensive income of the associates and joint ventures.

When the Group share of losses of associates and joint ventures exceeds the Group interest in that associates and joint ventures (which includes any long-term interests that, in substance, form part of the Group net investment in the associates and joint ventures), the Group discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates and joint ventures.

The requirements of International Financial Reporting Standards are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group investment in associates and joint ventures. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of equity method from the date when the investment ceases to be an associate or a joint venture. When the Group retains its interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.11 Investments in associates and joint ventures (continued)

Upon disposal of associates and joint ventures that results in the Group losing significant influence over that associates and joint ventures, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associates and joint ventures attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associates and joint ventures. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associates and joint ventures on the same basis as would be required if that associates and joint ventures had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associates and joint ventures would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associates and joint ventures.

When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture is recognised in the Group consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

5.12 Properties held for sale

Properties acquired or constructed with the intention of sale are classified as properties held for sale. Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for properties less all estimated costs of completion and costs necessary to make the sale.

Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when the activities that are necessary to get the assets ready for the intended use are in progress.

5.13 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured at cost less accumulated depreciation and impairment loss, if any. Depreciation on investment in buildings is charged on a straight-line basis over 40 years.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss in the period in which the property is derecognised.

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

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

5.14 Acceptances

Acceptances are recognised as 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.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.15 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are charged to the consolidated statement of profit or loss in the period in which they are incurred.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

- Buildings 15-25 years;
- Furniture, office equipment and motor vehicles 3-5 years; and
- Information technology 3-5 years.

Freehold land is not depreciated. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Properties or assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss, if any. Cost includes all direct costs attributable to the design and construction of the property including related staff costs, and for qualifying assets, financing costs capitalised in accordance with the Group accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property, plant and equipment category and is depreciated in accordance with the Group policies.

5.16 Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible 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 assets 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the present value of the estimated future cash flows are calculated using a profit rate that reflects current market assessments of the risks specific to the asset.

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 in the consolidated statement of profit or loss.

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, such 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 in the consolidated statement of profit or loss.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.17 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is reasonably certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

5.18 Employees' end of service benefits

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

The Group provides end of service benefits for its expatriate employees in accordance with U.A.E. Labour Law.

The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

5.19 Directors' remuneration

Pursuant to Article 169 of the Federal Law No. 2 of 2015 and in accordance with the articles of association of the Bank, the Directors shall be entitled for remuneration which shall not exceed 10% of the net profits after deducting depreciation and the reserves.

5.20 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas subsidiaries in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate.

5.20.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.20 Taxation (continued)

5.20.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

5.21 Zakat

Zakat for shareholders is computed based on “Net Invested Funds Method” which is in accordance with the advice of the Fatwa and Sharia’a Supervisory Board.

The Zakat for the shareholders is accounted for as follows:

5.21.1 Zakat accounted by the Bank on shareholders’ behalf

Zakat is accounted as per the Articles and Memorandum of Association of the Bank and is approved by the Bank Fatwa and Sharia’a Supervisory Boards on the following basis:

- The portion of Zakat payable by the Bank on its shareholders’ behalf is calculated on ‘statutory reserve’, ‘general reserve’, ‘retained earnings’ and ‘provision for employees’ end of service benefits’;
- Zakat paid by investee companies directly are adjusted in shareholders Zakat, if the Bank only accounts for net profit after Zakat of investee;
- Zakat on depositors’ investment risk reserve is calculated and deducted from the investment risk reserve balance held with the bank and added to the Zakat payable balance; and
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the terms set by the Board of Directors.

5.21.2 Zakat payable by the shareholders

Zakat payable by the shareholders directly represents the differential/remaining Zakat after deducting the Zakat accounted by the Bank on shareholders’ behalf.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

5.22.1 Income from financial assets measured at amortised cost

Income from a financial asset measured at amortised cost is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Income from a financial asset measured at amortised cost is accrued/amortised on a time basis, by reference to the principal outstanding and at the effective profit rate applicable, which is the rate that is used to calculate the present value of estimated future net cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

5.22.2 Fee and commission income

Fee and commission income is recognised when the related services are performed.

5.22.3 Dividend income

Dividend income from other investments at fair value in equities is recognised when the right to receive the dividend is established.

5.22.4 Income from cancellation of properties sale contract

Income from cancellation of properties sale contract (forfeiture income) is recognised in the consolidated statement of profit or loss when, in the case of properties sold and not yet recognised as revenue, a customer does not fulfil the contractual payment terms. This is deemed to take place when, despite rigorous follow-up with the defaulted customer, the customer continues to default on the contractual terms and an amount is taken under a settlement or pursuant to a decision issued by Dubai Real Estate Regulatory Authority.

5.22.5 Revenue from sale of properties, net

Revenue is recognized when (or as) the Group satisfies the performance obligation at an amount that reflects the consideration to which the Group is entitled in exchange for transferring goods or services to a customer. A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For performance obligations satisfied over time, the Group recognises revenue over time by selecting an appropriate method for measuring the progress towards complete satisfaction of that performance obligation.

5.22.6 Rental income

The Group policy for recognition of revenue from operating leases is described in note 5.24.1 below.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5 Significant accounting policies (continued)

5.22 Revenue recognition (continued)

5.22.7 Forfeited income

According to the Bank's Fatwa and Sharia'a Supervisory Board, the Group is required to identify any income deemed to be derived from transactions not acceptable under Islamic Sharia'a principles, as interpreted by Fatwa and Sharia'a Supervisory Board, and to set aside such amount in a separate account used to pay for charitable causes and activities.

5.23 Depositors' share of profit calculation

Allocation of profits between depositors and shareholders is calculated according to the Bank's standard procedures and is approved by the Bank's Fatwa and Sharia'a Supervisory Board.

5.24 Lease

5.24.1 The Group as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Leased asset are initially recorded at cost and depreciated on useful life on a straight line basis.

5.24.2 The Group as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

5.25 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Refer to note 44 on Business Segment reporting.

5.26 Transition to IFRS 9

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except the comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

5.26 Transition to IFRS 9 (continued)

5.26.1 Impact on components of statement of financial position balances from IAS 39 to IFRS 9

Explanations in respect of change in measurement of categories of financial assets in accordance with IFRS 9 as at 1 January 2018 primarily comprises the following:

- Islamic investing and financing assets – an opening adjustment to regulatory credit risk reserve of AED 265.3 million has resulted in decrease in carrying value from AED 133.3 billion at 31 December 2017 to AED 133.0 billion;
- Investment in Islamic Sukuk – an opening adjustment to regulatory credit risk reserve of AED 76.5 million has resulted in decrease in carrying value from AED 24.0 billion at 31 December 2017 to AED 23.9 billion; and
- Receivables and other assets – an opening retained earning adjustment of AED 296.6 million, regulatory credit risk reserve adjustment of AED 40.0 million and non-controlling interest adjustment of AED 364.6 million has resulted in decrease in carrying value from AED 7.3 billion to AED 6.6 billion.

All other categories of financial assets at amortized cost largely comprise short term receivables, hence have immaterial expected credit losses.

5.26.2 Reconciliation of impairment provision balance from IAS 39 to IFRS 9

The following table reconciles the closing impairment loss allowance for financial assets in accordance with IAS 39 and provisions for financing commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at December 31 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at January 1, 2018.

	31 Dec 2017 AED'000	Re-measure- ment AED'000	1 Jan 2018 AED'000
Islamic financing and investing assets- at amortised cost	5,732,668	265,361	5,998,029
Investment in Islamic Sukuk – at amortised cost	-	76,500	76,500
	<u>5,732,668</u>	<u>341,861</u>	<u>6,074,529</u>
	=====	=====	=====

Refer note 5.26.1 for impact on provision for re-measurement of other receivables.

5.26.3 Reconciliation of other reserves and treasury shares, retained earnings and non-controlling interests

The impact from the adoption of IFRS 9 as at 1 January 2018 on shareholders capital and equity and non-controlling interest is as follows:

	Other reserves and treasury shares AED'000	Retained earnings AED'000	Non- controlling interests AED'000
Closing balance under IAS 39 (31 December 2017)	7,785,557	6,964,089	2,942,687
<u>Impact on recognition of Expected Credit Losses</u>			
Islamic financing and investing assets, sukuk and receivables - at amortised cost under IFRS 9	(381,861)	(296,559)	(364,665)
	<u>7,403,696</u>	<u>6,667,530</u>	<u>2,578,022</u>
	=====	=====	=====
Opening balance under IFRS 9 on date of initial application of 1 January 2018			

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Notes to the consolidated financial statements

for the year ended 31 December 2018

6 Critical accounting judgements and key sources of estimation of uncertainty

While applying the accounting policies as stated in note 5, the management of the Group has made certain judgments. These judgments mainly have a significant effect on the carrying amounts of Islamic financing and investing assets, investment securities and the fair values of Islamic derivative financial instruments. The significant judgments made by the management in arriving at the carrying amounts of Islamic financing and investing assets, investment securities and fair values of Islamic derivative financial instruments are summarised as follows:

6.1 Significant increase in credit risk

As explained in note 5.3.9, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

6.2 Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

6.3 Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

6.4 Impairment losses on Islamic financing and investing assets (applicable before 1 January 2018)

The impairment allowance for Islamic financing and investing assets is established through charges to the consolidated statement of profit or loss in the form of an impairment allowance for doubtful Islamic financing and investing assets.

Individually assessed Islamic financing and investing assets

Impairment losses for individually assessed Islamic financing and investing assets are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate Islamic financing and investing assets which are individually significant accounts or are not subject to the portfolio-based-approach.

The following factors are considered by management when determining allowance for impairment on individual Islamic financing and investing assets which are significant:

- The amount expected to be realised on disposals of collaterals;
- The Group ability to enforce its claim on the collaterals and associated cost of litigation; and
- The expected time frame to complete legal formalities and disposals of collaterals.

The Group policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired Islamic financing and investing assets continue to be classified as impaired unless they are brought fully current and the collection of scheduled profit and principal is considered probable.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

6 Critical accounting judgements and key sources of estimation of uncertainty

6.4 Impairment losses on Islamic financing and investing assets (applicable before 1 January 2018) (continued)

Collectively assessed Islamic financing and investing assets

Collective assessment of allowance for impairment is made for overdue retail Islamic financing and investing assets with common features which are not individually significant and performing Islamic financing and investing assets which are not found to be individually impaired.

For collectively assessed Islamic financing and investing assets, judgement is involved in selecting and applying the criteria for grouping of the Islamic financing assets with similar characteristics, as well as applying the statistical models used to estimate the losses incurred for each group of Islamic financing assets in the reporting period. The benchmarking of loss rates, the assessment of the extent to which historical losses are representative of current conditions, and the ongoing refinement of modelling methodologies, provide a means of identifying changes that may be required, but the process is inherently one of estimation.

The management of the Group assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of Islamic financing and investing assets which may be impaired but not identified as of the consolidated financial position date.

6.5 Classification of investments

The classification and measurement of the financial assets depends on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Management is satisfied that the Group investment in securities are appropriately classified and measured.

Financial assets that are measured at amortised cost are those assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit.

Financial assets that are measured at FVTOCI are investments in sharia compliant equity instruments and investment funds that are not held to benefit from changes in their fair value and are not held for trading. The management believes that designating these instruments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments than holding the investments at fair value through profit and loss.

Financial assets that are measured at FVTPL are either held for trading or designated as FVTPL.

6.6 Impairment of associates and joint ventures

After application of equity method of accounting, the Group determines whether it is necessary to recognise for any additional impairment loss on the carrying value of the investment in associates and joint ventures by comparing their recoverable amounts with the higher of value in use or fair value less costs to sell with their carrying amounts.

In determining the value in use of the investment, the Group estimates:

- its share of the present value of the estimated future cash flows expected to be generated by the associates, including the cash flows from the operations of the associates and the proceeds on the ultimate disposal of the investment; or
- the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

6 Critical accounting judgements and key sources of estimation of uncertainty (continued)

6.7 Fair value of financial instruments

Certain assets and liabilities are measured at fair value for financial reporting purposes. The management has set up a valuation process, which involves finance and investment banking departments to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market observable data to the extent it is available. Where level 1 inputs are not available, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as present value calculation rates, prepayment rates and default rate assumptions for 'asset-backed' securities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in note 47 to these consolidated financial statements.

6.8 Determination of control over investee

Management applies its judgement to determine whether control indicators as set out in 5.1 exist to establish that the Group controls an investee.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

7 Cash and balances with central banks

7.1 Analysis by category

	<i>Note</i>	2018 AED'000	2017 AED'000
Cash on hand		1,666,732	1,403,472
Balances with central banks:			
Balances and reserve requirements with central banks	7.3	7,864,674	7,477,962
International murabahas with the Central Bank of the U.A.E.		13,014,120	19,003,814
Total		22,545,526 =====	27,885,248 =====

7.2 Analysis by geography

	2018 AED'000	2017 AED'000
Within the U.A.E.	22,071,987	27,550,605
Outside the U.A.E.	473,539	334,643
Total	22,545,526 =====	27,885,248 =====

7.3 Statutory cash reserve requirements

The reserve requirements are kept with the Central Banks of the U.A.E., Pakistan and Kenya in the respective local currencies and US Dollar. These reserves are not available for use in the Group's day to day operations, and cannot be withdrawn without the approval of the respective central banks. The level of reserve required changes every month in accordance with the requirements of the respective central banks' directives.

8 Due from banks and financial institutions

8.1 Analysis by category

	2018 AED'000	2017 AED'000
Current accounts	1,117,919	1,542,606
Wakala deposits	1,410,705	684,871
International murabahas - short term	5,768,408	2,449,475
Total	8,297,032 =====	4,676,952 =====

8.2 Analysis by geography

	2018 AED'000	2017 AED'000
Within the U.A.E.	7,009,965	2,906,861
Outside the U.A.E.	1,287,067	1,770,091
Total	8,297,032 =====	4,676,952 =====

Due from banks and financial institutions comprise balances which have high credit quality and short term maturity. Accordingly due from banks and financial institutions are classified at stage 1.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

9 Islamic financing and investing assets, net

9.1 Analysis by category

	<i>Note</i>	2018 AED'000	2017 AED'000
Islamic financing assets			
Vehicles murabahas		9,193,107	10,091,324
International murabahas - long term		24,440,518	23,250,011
Other murabahas		5,041,379	6,103,720
Total murabahas		38,675,004	39,445,055
Ijarahs		52,905,289	45,977,160
Home finance ijarah		13,274,482	12,949,154
Personal finance		17,779,746	17,533,650
Istisna'a		1,187,724	1,356,662
Islamic credit cards		1,201,860	1,056,524
		125,024,105	118,318,205
Less: deferred income		(4,192,807)	(4,074,803)
Less: contractors and consultants' istisna'a contracts		(8,430)	(15,843)
Total Islamic financing assets		120,822,868	114,227,559
Islamic investing assets			
Musharakas		7,806,122	6,698,523
Mudarabas		11,712,531	13,606,554
Wakalas		10,124,436	4,534,259
Total Islamic investing assets		29,643,089	24,839,336
Total Islamic financing and investing assets		150,465,957	139,066,895
Less: provisions for impairment	9.3	(5,727,372)	(5,732,668)
Total Islamic financing and investing assets, net		144,738,585	133,334,227
		=====	=====

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

9 Islamic financing and investing assets, net (continued)

9.2 Carrying value of exposure by internal risk rating category and by stage

As at 31 December 2018

	Gross exposure (AED'000)				Expected credit loss (AED'000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low	43,505,321	-	-	43,505,321	7,338	-	-	7,338
Moderate	77,090,046	4,576,803	-	81,666,849	871,351	294,077	-	1,165,428
Fair	11,653,006	8,610,411	-	20,263,417	135,394	712,760	-	848,154
Default	-	-	5,030,370	5,030,370	-	-	3,706,452	3,706,452
Total	132,248,373	13,187,214	5,030,370	150,465,957	1,014,083	1,006,837	3,706,452	5,727,372
	=====	=====	=====	=====	=====	=====	=====	=====

As at 01 January 2018

	Gross exposure (AED'000)				Expected credit loss (AED'000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low	39,660,420	-	-	39,660,420	44,134	-	-	44,134
Moderate	69,945,035	5,110,553	-	75,055,588	1,051,402	224,155	-	1,275,557
Fair	12,537,921	7,213,275	-	19,751,196	284,717	471,917	-	756,634
Default	-	-	4,599,691	4,599,691	-	-	3,921,704	3,921,704
Total	122,143,376	12,323,828	4,599,691	139,066,895	1,380,253	696,072	3,921,704	5,998,029
	=====	=====	=====	=====	=====	=====	=====	=====

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

9 Islamic financing and investing assets, net (continued)

9.3 Provision for impairment

	Note	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000	2017 AED'000
Balance at 1 January		1,810,964	-	3,921,704	5,732,668	5,558,651
Reversal on transition to IFRS 9	5.26.2	(1,810,964)	-	-	(1,810,964)	-
ECL recognized on adoption of IFRS 9		1,380,253	696,072	-	2,076,325	-
Balance at 1 January - restated		1,380,253	696,072	3,921,704	5,998,029	5,558,651
Impairment charge during the year	40	(348,732)	311,109	1,827,006	1,789,383	1,909,262
Write back/recoveries during the year	40	-	-	(869,492)	(869,492)	(1,073,843)
Write off		-	-	(1,165,634)	(1,165,634)	(661,402)
Exchange and other adjustments		(17,438)	(344)	(7,132)	(24,914)	-
Balance at 31 December		1,014,083	1,006,837	3,706,452	5,727,372	5,732,668
		=====	=====	=====	=====	=====

The impairment allowance as per IFRS 9 for all financial assets of the Group meets the regulatory provision requirements of the Central Bank of the UAE. Therefore, no regulatory credit risk reserve has been raised.

9.4 Collaterals and mitigations

The Group, in the ordinary course of providing finance, holds collateral as security to mitigate credit risk associated with Islamic financing and investing assets. The collaterals include mortgage on land and buildings and lien on deposits, equities and other fixed assets. The estimated value of collaterals for Islamic financing and investing assets which are mainly asset based financing, is as follows:

	2018 AED'000	2017 AED'000
Properties and mortgages	40,900,849	36,839,577
Deposits and shares	6,431,085	5,616,703
Movable assets	21,085,974	19,871,229
Government and financial guarantees	5,962,523	7,716,134

The estimated fair value of collaterals that the Group holds relating to facilities individually determined to be impaired at 31 December 2018 amounts to AED 3.2 billion (2017: AED 3.3 billion).

During the year ended 31 December 2018, the Group took possession of various underlying assets, primarily vehicles and residential mortgage properties. The Group has sold repossessed assets amounting to AED 17.4 million (2017: AED 11.0 million) and acquired the properties amounting to AED 281.9 million (2017: AED 194.1 million) which has been adjusted against the outstanding receivables.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

9 Islamic financing and investing assets, net (continued)

9.5 Analysis by economic sector and geography

	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
2018			
Government	5,745,492	1,521,827	7,267,319
Financial institutions	5,830,020	644,686	6,474,706
Real estate	28,581,368	261,913	28,843,281
Contracting	5,799,483	964,868	6,764,351
Trade	7,564,031	682,717	8,246,748
Aviation	18,770,762	113,493	18,884,255
Services and others	31,220,294	3,178,972	34,399,266
Consumer home finance	13,357,669	290,197	13,647,866
Consumer financing	25,396,744	541,421	25,938,165
	<u>142,265,863</u>	<u>8,200,094</u>	<u>150,465,957</u>
Less: provision for impairment			<u>(5,727,372)</u>
Total			<u>144,738,585</u> =====
2017			
Government	4,488,674	1,517,555	6,006,229
Financial institutions	5,076,851	1,257,715	6,334,566
Real estate	25,916,111	277,423	26,193,534
Contracting	6,506,545	855,093	7,361,638
Trade	7,093,302	1,124,762	8,218,064
Aviation	16,847,745	150,123	16,997,868
Services and others	25,708,401	2,140,836	27,849,237
Consumer home finance	13,120,151	334,453	13,454,604
Consumer financing	26,035,602	615,553	26,651,155
	<u>130,793,382</u>	<u>8,273,513</u>	<u>139,066,895</u>
Less: provision for impairment			<u>(5,732,668)</u>
Total			<u>133,334,227</u> =====

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Notes to the consolidated financial statements for the year ended 31 December 2018

10 Investments in Islamic sukuk measured at amortised cost

10.1 Analysis by geography

	2018 AED'000	2017 AED'000
Within the U.A.E.	14,593,400	13,541,184
Other G.C.C. Countries	6,249,685	3,373,578
Rest of the World	10,425,237	7,107,918
	31,268,322	24,022,680
Less: provision for impairment	(89,797)	-
Total	31,178,525 =====	24,022,680 =====

10.2 Analysis by economic sector

	2018 AED'000	2017 AED'000
Government	19,487,183	12,722,297
Financial institutions	3,368,507	3,535,241
Real estate	3,030,013	3,122,532
Aviation	1,739,988	1,925,000
Services and manufacturing	3,642,631	2,717,610
	31,268,322	24,022,680
Less: provision for impairment	(89,797)	-
Total	31,178,525 =====	24,022,680 =====

Investments in Islamic sukuk within the U.A.E. include investments in bilateral sukuk amounting to AED 3.2 billion as at 31 December 2018 (2017: AED 3.2 billion).

All Sukuks are classified at Stage 1 at 31 December 2018. The expected credit loss against these balances is AED 89.7 million (1 Jan 2018: AED 76.5 million).

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Notes to the consolidated financial statements for the year ended 31 December 2018

11 Other investments measured at fair value

11.1 Analysis by category and geography

	Within the U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the World AED'000	Total AED'000
As at 31 December 2018				
Investments measured at fair value through profit or loss				
Quoted equity instruments	-	-	-	-
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	598,516	118,058	1,133	717,707
Unquoted equity instruments and investment funds	685,243	51,342	233,532	970,117
	1,283,759	169,400	234,665	1,687,824
Total	1,283,759	169,400	234,665	1,687,824
	=====	=====	=====	=====
As at 31 December 2017				
Investments measured at fair value through profit or loss				
Quoted equity instruments	2,234	-	-	2,234
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	812,970	143,317	1,961	958,248
Unquoted equity instruments and investment funds	704,015	56,278	240,958	1,001,251
	1,516,985	199,595	242,919	1,959,499
Total	1,519,219	199,595	242,919	1,961,733
	=====	=====	=====	=====

During the year ended 31 December 2018, dividends received from investments measured at fair value through other comprehensive income amounting to AED 45.4 million (2017: AED 31.7 million) were recognised in the consolidated statement of profit or loss (note 33).

During the year ended 31 December 2018, the Group purchased shares worth AED 0.9 million measured at fair value (2017: AED 6.9 million).

11.2 Analysis by economic sector

	2018 AED'000	2017 AED'000
Services and manufacturing	970,266	1,152,473
Financial institutions	530,243	584,049
Real estate	187,315	225,211
Total	1,687,824	1,961,733
	=====	=====

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

12 Investments in associates and joint ventures

12.1 Analysis of carrying value

	2018 AED'000	2017 AED'000
Investments in associates and joint ventures	1,988,642	2,195,944
Less: provision for impairment	(60,013)	(60,013)
Net investment in associates and joint ventures	1,928,629	2,135,931
	=====	=====

12.2 Analysis of movement in carrying value

	2018 AED'000	2017 AED'000
Balance at 1 January	2,135,931	2,034,472
Additions	129,352	4,495
Dividend received	(19,871)	(25,868)
Share of profit	137,496	122,050
Exchange translation reserve	(454,279)	782
Balance at 31 December	1,928,629	2,135,931
	=====	=====

12.3 Analysis by geography

	2018 AED'000	2017 AED'000
Within the U.A.E.	1,463,775	1,419,291
Other G.C.C. Countries	46,142	47,412
Rest of the world	418,712	669,228
Total	1,928,629	2,135,931
	=====	=====

12.4 Fair value of investment in associates and joint ventures

As at 31 December 2018, the cumulative fair value of the Group's listed associates is AED 186.2 million (2017: AED 190.2 million), and the carrying amount of the Group's interest in those associates is AED 330.4 million (2017: 583.0 million). All other investments in associates and joint ventures are not listed in active markets and the management considers the carrying amounts of these investments approximate their fair values.

12.5 Analysis of the Group's share of total comprehensive income of associates and joint ventures

	2018 AED'000	2017 AED'000
The Group's share of profit for the year	137,496	122,050
The Group's share of other comprehensive income / (loss) for the year	-	-
The Group's share of total comprehensive income for the year	137,496	122,050
	=====	=====

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Notes to the consolidated financial statements for the year ended 31 December 2018

12 Investments in associates and joint ventures (continued)

12.6 List of associates and joint ventures

Name of associate or joint venture	Principal activity	Place of incorporation	Percentage of holding	
			2018	2017
1. Bank of Khartoum	Banking	Sudan	29.5%	29.5%
2. Bank Panin Syariah Tbk	Banking	Indonesia	38.3%	38.3%
3. Bosnia Bank International	Banking	Bosnia	27.3%	27.3%
4. Liquidity Management Center	Brokerage services	Bahrain	25.0%	25.0%
5. Ejar Cranes & Equipment L.L.C.	Equipment leasing	U.A.E.	20.0%	20.0%
6. Solidere International Al Zorah Equity Investments Inc	Property development	Cayman Islands	22.7%	22.7%
7. Al Bustan Center Company L.L.C.	Leasing apartments and shops	U.A.E.	50.0%	50.0%
8. Arady Development LLC	Property development	U.A.E.	50.0%	50.0%

All of the above associates and joint ventures are accounted for using the equity accounting method in these consolidated financial statements.

12.7 Material associates and joint ventures for financial reporting purposes

Summarised financial information in respect of each of the Group material associates and joint ventures is set out below. The summarised financial information represents amounts shown in the associates' and joint ventures' most recent financial statements prepared in accordance with IFRS and adjusted by the Group for equity accounting purposes.

	Bank of Khartoum	Bank Panin Syariah	Other associates	Total
	AED'000	AED'000	AED'000	AED'000
2018				
Statement of financial position				
Assets	5,044,285	2,341,691	7,631,321	15,017,297
Liabilities	4,722,048	1,726,409	3,104,944	9,553,401
Net assets	322,237	615,282	4,526,377	5,463,896
Carrying amount of Group's interest	95,037	235,345	1,598,247	1,928,629
Statement of Comprehensive income				
Revenue	265,097	76,298	339,351	680,746
Net profit	74,447	2,010	45,610	122,067
Dividend received	5,041	-	14,830	19,871
2017				
Statement of financial position				
Assets	15,434,346	2,504,916	7,091,735	25,030,997
Liabilities	13,864,563	2,171,703	2,789,347	18,825,613
Net assets	1,569,783	333,213	4,302,388	6,205,384
Carrying amount of Group's interest	462,976	127,454	1,545,501	2,135,931
Statement of Comprehensive income				
Revenue	1,068,970	5,188	254,096	1,328,254
Net profit	328,933	4,451	64,933	398,317
Dividend received	-	-	25,868	25,868

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

13 Properties held for development and sale

13.1 Movement in properties held for development and sale

	<i>Note</i>	Other real estate AED'000	Properties under construction AED'000	Land AED'000	Total AED'000
Balance at 1 January 2018		272,306	577,584	424,516	1,274,406
Additions		-	322,314	141,394	463,708
Disposals	34	(11,076)	(277,965)	-	(289,041)
Transfers		-	(261,270)	261,270	-
Foreign exchange effect		(98)	-	-	(98)
Balance at 31 December 2018		261,132	360,663	827,180	1,448,975
		=====	=====	=====	=====
Balance at 1 January 2017		315,333	608,281	424,516	1,348,130
Additions		39,810	412,246	-	452,056
Disposals	34	(27,129)	(442,943)	-	(470,072)
Transfers		(56,021)	-	-	(56,021)
Foreign exchange effect		313	-	-	313
Balance at 31 December 2017		272,306	577,584	424,516	1,274,406
		=====	=====	=====	=====

Properties held for sale represent properties in the U.A.E. and outside the U.A.E. that are registered in the name of the Group entities.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

14 Investment properties

14.1 Movement in investment properties

	Other real estate AED'000	Investment properties under construction AED'000	Land AED'000	Total AED'000
Cost:				
Balance at 1 January 2018	1,479,294	1,725,806	953,502	4,158,602
Additions	2,619	413,046	217,075	632,740
Transfers *	181,150	-	100,706	281,856
Disposals	(29,568)	-	(18,144)	(47,712)
Transfer to property, plant and equipment	(630)	-	-	(630)
Reclassification	9,566	(9,566)	-	-
Foreign exchange effect	(18,607)	-	-	(18,607)
Balance at 31 December 2018	1,623,824	2,129,286	1,253,139	5,006,249
	=====	=====	=====	=====
Accumulated depreciation and impairment:				
Balance at 1 January 2018	435,818	1,741	150,889	588,448
Depreciation charged for the year	35,148	-	-	35,148
Disposals	(1,886)	-	-	(1,886)
Transfers	(168)	-	-	(168)
Reclassification	1,741	(1,741)	-	-
Others	(25,000)	-	(75,000)	(100,000)
Foreign exchange effect	(10,347)	-	-	(10,347)
Balance at 31 December 2018	435,306	-	75,889	511,195
	=====	=====	=====	=====
Carrying amount at 31 December 2018	1,188,518	2,129,286	1,177,250	4,495,054
	=====	=====	=====	=====
Cost:				
Balance at 1 January 2017	1,220,742	1,439,202	944,049	3,603,993
Additions	1,446	286,604	9,453	297,503
Transfers *	250,102	-	-	250,102
Disposals	(39,802)	-	-	(39,802)
Foreign exchange effect	46,806	-	-	46,806
Balance at 31 December 2017	1,479,294	1,725,806	953,502	4,158,602
	=====	=====	=====	=====
Accumulated depreciation and impairment:				
Balance at 1 January 2017	393,048	1,741	150,889	545,678
Depreciation charged for the year	45,723	-	-	45,723
Disposals	(2,496)	-	-	(2,496)
Others	(25,000)	-	-	(25,000)
Foreign exchange effect	24,543	-	-	24,543
Balance at 31 December 2017	435,818	1,741	150,889	588,448
	=====	=====	=====	=====
Carrying amount at 31 December 2017	1,043,476	1,724,065	802,613	3,570,154
	=====	=====	=====	=====

* Transfer to investment properties include properties acquired in settlement of Islamic financing and investing assets amounting to AED 281.9 million (2017: 194.1 million) and transfer from property held for development and sale amounting to AED Nil (2017: AED 56.0 million).

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

14 Investment properties (continued)

14.2 Analysis by geography

	Other real estate AED'000	Investment properties under construction AED'000	Land AED'000	Total AED'000
2018				
<i>Carrying amount at 31 December:</i>				
Within the U.A.E.	1,043,399	2,129,286	1,124,706	4,297,391
Outside the U.A.E.	145,119	-	52,544	197,663
Total carrying amount	1,188,518	2,129,286	1,177,250	4,495,054
2017				
<i>Carrying amount at 31 December:</i>				
Within the U.A.E.	873,114	1,724,065	750,068	3,347,247
Outside the U.A.E.	170,362	-	52,545	222,907
Total carrying amount	1,043,476	1,724,065	802,613	3,570,154

Investment properties include properties with the book value of AED 361.1 million (2017: AED 389.7 million) that have been mortgaged by Group's entities as a security in respect of Islamic financing arrangements to another financial institution.

14.3 Fair value of investment properties

The fair value of the Group's investment properties as at 31 December 2018 is AED 5.1 billion (2017: AED 4.2 billion) based on unobservable market inputs (i.e. level 3).

The Group has carried out external valuation of these properties as at 31 December 2018. 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 comparable transaction method and present value calculation of the estimated future cash flow model supported by existing lease and current market rents for similar properties in the same location adjusted to reflect the level of completion of construction of these properties. The profit rate, which is used to calculate the present value of the future cash flows, reflects current market assessments of the uncertainty and timing of the cash flows.

The valuations were based on an individual assessment, for each property type, of both the future earnings and the required yield. In assessing the future earnings of the properties, potential changes in rental levels from each contract's rent and expiry date compared with estimated current market rent, as well as changes in occupancy rates and property costs.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

15 Receivables and other assets

15.1 Analysis by category

	<i>Note</i>	2018 AED'000	2017 AED'000
Receivables on sale of investment properties, net	15.1.1	1,364,632	2,306,876
Due from customers	15.1.2	1,235,542	855,219
Acceptances		874,402	1,357,089
Prepaid expenses		118,063	141,238
Fair value of Islamic derivatives	45.1	515,502	229,458
Deferred tax asset	22.2	19,445	9,973
Others		1,920,184	2,439,346
Total		6,047,770 =====	7,339,199 =====

15.1.1 Receivables on sale of investment properties, net

The Bank and its subsidiary entered into sale and purchase agreements to sell investment properties in prior years. The salient terms and conditions of the sales and purchase agreements are as follows:

- The sales consideration of transactions of the Bank and its subsidiary was receivable on or before 30 December 2017. The arrangement has been extended to 31 December 2019 on the similar terms provided below;
- The sales consideration can be settled in cash or in kind or a combination of cash and in kind, at the discretion of the buyer. In case full settlement of consideration or part thereof is in kind, assets to be offered in lieu of the full sales consideration or part thereof must be of equal value to the amount due and payable under the agreement; and
- The commitments on the remaining original purchase price for the plots of land remain with the Bank.
- The exposure is classified at stage 2 and accordingly life time expected credit loss amounting to AED 660.0 million is held at 31 December 2018 (1 Jan 2018: AED 701.0 million).

15.1.2 Due from customers

Due from customers represent overdrawn current accounts and other accounts that do not meet the definition of Islamic financing and investing assets. The exposure are stated at stage 2 and accordingly balances are stated net of provision for impairment amounting to AED 646 million (2017: AED 619 million). The Group holds collaterals amounting to AED 1,062 million (2017: AED 1,250 million) against these accounts.

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Notes to the consolidated financial statements for the year ended 31 December 2018

16 Property and equipment

	Land and buildings AED'000	Furniture, equipment, and vehicles AED'000	Information technology AED'000	Capital work in progress AED'000	Total AED'000
Cost:					
Balance at 1 January 2018	776,997	352,506	713,886	564,282	2,407,671
Additions	19,646	11,591	5,331	253,810	290,378
Disposals	-	(3,777)	(344)	-	(4,121)
Written off	-	-	-	(1,038)	(1,038)
Transfers	3,439	(4,168)	57,610	(56,881)	-
Exchange adjustments	18	(22,196)	(13,566)	(411)	(36,155)
Balance at 31 December 2018	800,100	333,956	762,917	759,762	2,656,735
	=====	=====	=====	=====	=====
Accumulated depreciation:					
Balance at 1 January 2018	376,217	298,109	596,866	-	1,271,192
Charge for the year	29,231	21,110	48,213	-	98,554
Disposals	-	(3,459)	(344)	-	(3,803)
Exchange adjustments	149	(13,762)	(9,834)	-	(23,447)
Balance at 31 December 2018	405,597	301,998	634,901	-	1,342,496
	=====	=====	=====	=====	=====
Carrying amount					
Balance at 31 December 2018	394,503	31,958	128,016	759,762	1,314,239
	=====	=====	=====	=====	=====
Cost:					
Balance at 1 January 2017	763,815	336,676	647,708	332,431	2,080,630
Additions	3,111	21,642	14,318	310,460	349,531
Disposals	(2,349)	(2,201)	(2)	(839)	(5,391)
Written off	(977)	(67)	(5,450)	(353)	(6,847)
Transfers	13,397	2,582	61,368	(77,347)	-
Exchange adjustments	-	(6,126)	(4,056)	(70)	(10,252)
Balance at 31 December 2017	776,997	352,506	713,886	564,282	2,407,671
	=====	=====	=====	=====	=====
Accumulated depreciation:					
Balance at 1 January 2017	339,575	275,639	537,805	-	1,153,019
Charge for the year	30,665	26,289	62,497	-	119,451
Disposals	-	(2,190)	(1)	-	(2,191)
Others	5,977	1,352	(831)	-	6,498
Exchange adjustments	-	(2,981)	(2,604)	-	(5,585)
Balance at 31 December 2017	376,217	298,109	596,866	-	1,271,192
	=====	=====	=====	=====	=====
Carrying amount					
Balance at 31 December 2017	400,780	54,397	117,020	564,282	1,136,479
	=====	=====	=====	=====	=====

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

17 Subsidiaries

17.1 List of material subsidiaries

Below are material interest held by the Group directly or indirectly in subsidiaries:

	Name of subsidiary	Principal activity	Place of incorporation and operation	Ownership interest and voting power	
				2018	2017
1.	Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	100.0%	100.0%
2.	Tamweel P.S.C	Financing	U.A.E	92.0%	92.0%
3.	DIB Bank Kenya	Banking	Kenya	100.0%	100.0%
4.	Dubai Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	95.5%	95.5%
5.	Deyaar Development P.J.S.C.	Real estate development	U.A.E	44.9%	44.9%
6.	Dar al Shariah Financial & Legal Consultancy L.L.C.	Financial and legal advisory	U.A.E.	60.0%	60.0%
7.	Al Tanmyah Services L.L.C.	Labour services	U.A.E.	99.5%	99.5%
8.	Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	100.0%	100.0%
9.	Al Tameer Modern Real Estate Investment	Real estate development	Egypt	100.0%	100.0%
10.	Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	100.0%	100.0%
11.	Naseej Private Property Management Services (formerly Naseej Fabric Manufacturing L.L.C.)	Property management	U.A.E.	99.0%	99.0%
12.	DIB Printing Press L.L.C.	Printing	U.A.E.	99.5%	99.5%
13.	Al Islami Real Estate Investments Ltd.	Investments	U.A.E.	100.0%	100.0%
14.	Dubai Islamic Trading Center L.L.C.	Trading in vehicles	U.A.E.	100.0%	100.0%
15.	Madinat Bader Properties Co. L.L.C.	Real Estate Development	U.A.E.	100.0%	-

In addition to the registered ownership described above, the remaining equity in the entities 4, 7, 11 and 12 are also beneficially held by the Bank through nominee arrangements.

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Notes to the consolidated financial statements for the year ended 31 December 2018

17 Subsidiaries (continued)

17.2 List of Special Purpose Vehicles (“SPV”)

Below is the list of special purpose vehicles which were formed to manage specific transactions including funds, and are expected to be closed upon completion of the related transactions:

Name of SPV	Principal activity	Place of incorporation and operation	Ownership interest and voting power	
			2018	2017
16. HoldInvest Real Estate Sarl	Investments	Luxembourg	100.0%	100.0%
17. France Invest Real Estate SAS	Investments	France	100.0%	100.0%
18. SARL Barbanniers	Investments	France	100.0%	100.0%
19. SCI le Sevine	Investments	France	100.0%	100.0%
20. Findi Real Estate SAS	Investments	France	100.0%	100.0%
21. PASR Einudzwanzigste Beteiligungsverwaltung GMBH	Investments	Austria	100.0%	100.0%
22. Al Islami German Holding Co. GMBH	Investments	Germany	100.0%	100.0%
23. Rhein Logistics GMBH	Investments	Germany	100.0%	100.0%
24. Jef Holdings BV	Investments	Netherlands	100.0%	100.0%
25. Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
26. Gulf Atlantic FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
27. Al Islami Oceanic Shipping Co FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
28. MESC Investment Company	Investments	Jordan	40.0%	40.0%
29. Levant One Investment Limited	Investments	U.A.E.	100.0%	100.0%
30. Petra Limited	Investments	Cayman Islands	100.0%	100.0%
31. Sequia Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
32. Blue Nile Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
33. DIB FM Ltd	Investments	Cayman Islands	100.0%	100.0%
34. Al Ameen	Investments	Cayman Islands	100.0%	100.0%

In addition to the registered ownership described above, the remaining equity in the entities 31 and 32 are also beneficially held by the Bank through nominee arrangements.

17.3 Non-controlling interests

Below are details of subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Proportion of ownership interests and voting rights held by the non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	2018	2017	2018	2017	2018	2017
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
1 Tamweel P.S.C.	8.0%	8.0%	11,288	1,339	193,959	182,402
2 Deyaar Development P.J.S.C.	55.1%	55.1%	74,447	178,549	2,467,001	2,758,425
3 Others	-	-	1,770	1,497	2,507	1,860
Total			87,505	181,385	2,663,467	2,942,687
			=====	=====	=====	=====

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

17 Subsidiaries (continued)

17.4 Material non-controlling interests

Summarised financial information of material non-controlling interests before intragroup elimination is as follows:

17.4.1 Tamweel P.S.C

	31 December 2018 AED'000	31 December 2017 AED'000
Statement of financial position		
Islamic financing and investing assets, net	2,436,090	3,077,683
Receivable and other assets	1,088,911	906,947
Total assets	3,525,001	3,984,630
	=====	=====
Due to banks and financial institutions	790,000	1,330,000
Payable and other liabilities	62,666	98,936
Total liabilities	852,666	1,428,936
	=====	=====
Equity	2,672,335	2,555,694
	=====	=====
	2018 AED' 000	2017 AED' 000
Statement of comprehensive income		
Total revenue	251,009	243,774
Total operating expenses	(49,320)	(117,810)
Depositors' and sukukholders' share of profit	(56,546)	(81,184)
Net profit for the year	145,143	44,780
Other comprehensive income	(5,024)	5,562
Total comprehensive income	140,119	50,342
	=====	=====
Statement of cash flows		
Net cash flows generated from operating activities	542,361	601,375
Net cash flows generated from investing activities	23,235	43,319
Net cash flows used in financing activities	(560,000)	(722,500)
Net cash flows during the year	5,596	(77,806)
	=====	=====
Dividends paid to non-controlling interests	1,600	2,000
	=====	=====

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Notes to the consolidated financial statements for the year ended 31 December 2018

17 Subsidiaries (continued)

17.4 Material non-controlling interests (continued)

17.4.2 Deyaar Development P.J.S.C

	31 December 2018 AED'000	31 December 2017 AED'000
<i>Statement of financial position</i>		
Investment in associates and joint ventures	1,321,368	1,265,038
Properties held for sale	1,407,543	1,232,321
Investment properties	340,122	338,019
Receivables and other assets	1,730,395	2,173,792
Other	1,382,947	1,527,665
Total assets	6,182,375 =====	6,536,835 =====
Due to banks and financial institutions	1,013,834	665,877
Payables and other liabilities	696,906	869,281
Total liabilities	1,710,740 =====	1,535,158 =====
Equity	4,471,635 =====	5,001,677 =====
	2018	2017
	AED'000	AED'000
<i>Statement of comprehensive income</i>		
Total income	224,897	292,329
Total expenses	(127,090)	(152,578)
Depositors' and sukukholders' share of profit	(24,329)	(18,696)
Share of profit from associates and joint ventures	61,512	9,140
Profit for the year	134,990	130,195
Other comprehensive income	(2,187)	(1,186)
Total comprehensive income	132,803 =====	129,009 =====
<i>Statement of cash flows</i>		
Net cash flows generated from / (used in) operating activities	116,526	(317,314)
Net cash flows used in investing activities	(160,578)	(136,655)
Net cash flows generated from financing activities	323,365	210,284
Net cash flows generated during the year	279,313 =====	243,685 =====

* Adjustments were made to the above financial information to bring the subsidiary's accounting policies in line with those used by the Group.

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Notes to the consolidated financial statements for the year ended 31 December 2018

18 Customers' deposits

18.1 Analysis by category

	<i>Note</i>	2018 AED'000	2017 AED'000
Current accounts		33,323,139	34,053,855
Saving accounts		20,023,434	18,871,920
Investment deposits		101,796,429	93,595,393
Margin accounts		401,255	533,204
Depositors' investment risk reserve	18.3	9,640	16,365
Depositors' share of profit payable	18.4	103,419	110,214
Total		155,657,316 =====	147,180,951 =====

18.2 Analysis by geography

		2018 AED'000	2017 AED'000
Within the U.A.E.		143,246,121	138,623,560
Outside the U.A.E.		12,411,195	8,557,391
Total		155,657,316 =====	147,180,951 =====

18.3 Depositors' investment risk reserve

Depositors' investment risk reserve represents a portion of the depositors' share of profits set aside as a reserve. This reserve is payable to the depositors upon the approval of the Bank's Fatwa and Sharia'a Supervisory Board. Zakat on depositors' investment risk reserve is included under Zakat payable and is deducted from the depositors' investment risk reserve balance.

Movement of depositors' investment risk reserve is as follows:

	<i>Note</i>	2018 AED'000	2017 AED'000
Balance at 1 January		16,365	19,733
Zakat for the year	23	(255)	(433)
Net transfer to depositors' share of profit during the year	18.4	(6,470)	(2,935)
Balance at 31 December		9,640 =====	16,365 =====

18.4 Depositors' share of profit payable

		2018 AED'000	2017 AED'000
Balance at 1 January		110,214	107,848
Depositors' share of profit for the year	37	528,444	472,730
Net transfer from depositors' investment risk reserve	18.3	6,470	2,935
Less: amount paid during the year		(541,709)	(473,299)
Balance at 31 December		103,419 =====	110,214 =====

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

19 Due to banks and financial institutions

19.1 Analysis by category

	2018 AED'000	2017 AED'000
Current accounts with banks	91,423	92,942
Due to the Central Bank of the U.A.E	2,081,573	5,155,196
Investment deposits	11,030,232	9,629,416
Total	13,203,228	14,877,554

Investment deposits include deposits of AED 3.8 billion (2017: AED 5.4 billion) under collateralized commodity murabaha arrangement from banks and financial institutions.

19.2 Analysis by geography

	2018 AED'000	2017 AED'000
Within the U.A.E.	9,844,979	12,424,404
Outside the U.A.E.	3,358,249	2,453,150
Total	13,203,228	14,877,554

20 Sukuk issued

20.1 Analysis by issuance

The analysis of the Sukuk instruments issued by the Group is as follows:

	Expected annual profit rate	Maturity	2018 AED'000	2017 AED'000
Listed sukuk - Irish Stock Exchange / Nasdaq Dubai				
Sukuk issued by the Bank	2.92%	June 2020	2,754,750	2,754,750
Sukuk issued by the Bank	3.60%	March 2021	1,836,500	1,836,500
Sukuk issued by the Bank	3.66%	February 2022	3,673,000	3,673,000
Sukuk issued by the Bank	3.63%	February 2023	3,660,594	-
Private placement				
Sukuk issued by the Bank	3 M Libor + 150 bps	December 2019	256,987	256,858
Sukuk issued by a subsidiary	6 M Kibor + 50 bps	June 2027	106,135	137,599
Sukuk issued by a subsidiary	3 M Kibor + 175 bps	Dec 2023	83,002	-
Total			12,370,968	8,658,707

20.2 Sukuk issued by the Bank

The terms of the Programme include transfer of certain identified assets (the "Co-Owned Assets") including original leased and musharakas assets, Sharia'a compliant authorised investments and any replaced assets of the Bank to DIB Sukuk Limited, Cayman Islands (the "Issuer"). These assets are under the control of the Bank and shall continue to be serviced by the Bank.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

20 Sukuk issued (continued)

20.2 Sukuk issued by the Bank (continued)

The Issuer will pay the semi-annually distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the semi-annually distribution amount payable to the sukuk holders on the semi-annually distribution dates. Upon maturity of the sukuk, the Bank has undertaken to buy these assets at the exercise price from the Issuer.

These sukuk are expected to pay profit to the investors semi-annually based on relevant margin at the time of issuance.

20.3 Sukuks issued by a subsidiary

In June 2017, a subsidiary issued Sharia'a Compliant Trust Certificates of PKR 4,000 million (AED 106.1 million) at an expected profit rate equal to 6 M Kibor plus 50 bps per annum. Realised profit on these certificates is payable semi-annually in arrears. The certificates are privately placed among the local banks and financial institution.

In December 2018, a subsidiary issued Sharia'a Compliant Trust Certificates of PKR 3,300 million (AED 87.5 million) at an expected profit rate equal to 3 M Kibor plus 175 bps per annum. Realised profit on these certificates is payable monthly in arrears. The certificates are privately placed among the local banks and financial institution.

21 Payables and other liabilities

21.1 Analysis by category

	<i>Note</i>	2018 AED'000	2017 AED'000
Sundry deposits and amanat		2,094,924	1,285,934
Acceptances payable		874,402	1,357,089
Depositors' and sukuk holders' share of profit payable	21.2	883,948	624,801
Provision for employees' end-of-service benefits	21.3	221,992	212,833
Fair value of Islamic derivative liabilities	45.1	452,464	210,407
Provision for taxation	22.1	7,280	6,428
Others		3,483,691	3,761,415
Total		8,018,701	7,458,907

21.2 Depositors' and sukuk holders share of profit payable

		2018 AED'000	2017 AED'000
Balance at 1 January		624,801	335,598
Wakala and other investment deposits from banks and customers	37	2,569,701	1,716,520
Sukukholders' accrued/realised profit on sukuk issued	37	429,912	322,421
Paid during the year		(2,740,466)	(1,749,738)
Balance at 31 December		883,948	624,801

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

21 Payables and other liabilities (continued)

21.3 Provision for employees' end-of-service benefits

	<i>Note</i>	2018 AED'000	2017 AED'000
Balance at 1 January		212,833	212,009
Charged during the year	38	23,953	18,721
Paid during the year		(14,794)	(17,897)
Balance at 31 December		221,992	212,833
		=====	=====

22 Taxation

22.1 Provision for taxation

		2018 AED'000	2017 AED'000
Balance at 1 January		6,428	5,099
Charged during the year	22.3	52,007	35,966
Paid during the year		(50,418)	(34,547)
Foreign exchange effect		(737)	(90)
Balance at 31 December		7,280	6,428
		=====	=====

22.2 Deferred tax liability / (asset)

		2018 AED'000	2017 AED'000
Balance at 1 January		(9,973)	2,114
Charged during the year	22.3	(9,593)	(11,527)
Foreign exchange effect		121	(560)
Balance at 31 December		(19,445)	(9,973)
		=====	=====

22.3 Income tax expense

		2018 AED'000	2017 AED'000
Current taxation	22.1	52,007	35,966
Deferred taxation	22.2	(9,593)	(11,527)
Total		42,414	24,439
		=====	=====

Effective tax rate reconciliation is not material in relation to the consolidated financial statements as tax charge relates to overseas subsidiaries only.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

23 Zakat payable

	Note	2018 AED'000	2017 AED'000
Zakat charged to equity attributable to shareholders of the Bank		304,947	279,939
Zakat accounted and paid by investees		-	-
Shareholders' Zakat for the year payable by the Bank		304,947	279,939
Zakat adjustment related to previous years		-	2,941
Net Zakat payable by the Bank on shareholders' behalf		304,947	282,880
Zakat on depositors' investment risk reserve	18.3	255	433
Zakat paid for previous years		-	(2,941)
Total Zakat payable		305,202	280,372
		=====	=====

24 Share capital

As at 31 December 2018, 6,589,585,179 authorised ordinary shares of AED 1 each (2017: 4,942,188,884 ordinary shares of AED 1 each) were fully issued and paid up.

On 21 February 2018, the shareholders approved the right issue of 1,647,396,295 shares of AED 1.0 each at a premium of AED 2.11 per share. In June 2018, the Bank completed the process of allocation of shares and the shares were listed on DFM after obtaining all regulatory approvals on 14 June 2018.

25 Tier 1 sukuk

SPV ("the Issuer")	Date of issuance	Issuance amount Equivalent AED '000	Discretionary profit rate	Callable period
DIB Tier 1 Sukuk Limited	March 2013	3,673,000	6.25% p.a., paid semi-annually	On or after March 2019
DIB Tier 1 Sukuk (2) Limited	January 2015	3,673,000	6.75% p.a., paid semi-annually	On or after January 2021
		7,346,000		
		=====		

During 2013, the Bank issued Shari'a compliant Tier 1 Sukuk through an SPV, DIB Tier 1 Sukuk Ltd, ("the Issuer") amounting to USD 1,000 million (AED 3,673 million) at a par value of USD 1,000 (AED 3,673) per sukuk. In January 2015, the Bank issued second series of Sharia compliant Tier 1 Sukuk through an SPV, DIB Tier 1 Sukuk II Ltd, ("the issuer") amounting to USD 1,000 million (AED 3,673 million) at a par value of USD 1,000 (AED 3,673) per sukuk.

Tier 1 sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 sukuk are listed on the Irish Stock Exchange and Dubai Financial Market / Nasdaq Dubai callable by the Bank after the "First Call Date" or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of Tier 1 sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the Mudaraba Common pool.

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Notes to the consolidated financial statements for the year ended 31 December 2018

25 Tier 1 sukuk (continued)

At the Issuer's sole discretion, it may elect not to make any Mudaraba profit distributions expected and the event is not considered an event of default. In such event, the Mudaraba profit will not be accumulated but forfeited to the issuer. If the Issuer makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on ordinary shares issued by the Bank, or (b) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire ordinary shares issued by the Bank.

26 Other reserves and treasury shares

26.1 Movements in other reserves and treasury shares

Movement of the other reserves and treasury shares during the years ended 31 December 2018 and 2017 is as follows:

	Statutory reserve AED'000	General reserve AED'000	Regulatory credit risk reserve AED'000	Share premium AED'000	Treasury shares AED'000	Total AED'000
2018						
Balance at 1 January 2018	5,066,273	2,350,000	390,000	-	(20,716)	7,785,557
Effect of IFRS 9 adoption	-	-	(381,861)	-	-	(381,861)
	<u>5,066,273</u>	<u>2,350,000</u>	<u>8,139</u>	<u>-</u>	<u>(20,716)</u>	<u>7,403,696</u>
Right shares issuance	-	-	-	3,476,006	(10,600)	3,465,406
Transfer to statutory reserve	3,476,006	-	-	(3,476,006)	-	-
Transfer to retained earnings	-	-	(8,139)	-	-	(8,139)
	<u>8,542,279</u>	<u>2,350,000</u>	<u>-</u>	<u>-</u>	<u>(31,316)</u>	<u>10,860,963</u>
2017						
Balance at 1 January 2017	5,066,273	2,350,000	390,000	-	(20,716)	7,785,557
Transfer to statutory reserve	-	-	-	-	-	-
	<u>5,066,273</u>	<u>2,350,000</u>	<u>390,000</u>	<u>-</u>	<u>(20,716)</u>	<u>7,785,557</u>

26.2 Statutory reserve

Article 239 of the U.A.E. Federal Law No. (2) of 2015 and the Articles of Association of the Bank, require that 10% of the profit attributable to the shareholders is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

26.3 Regulatory credit risk reserve

Regulatory credit risk reserve is a non-distributable reserve held for regulatory general provision requirement.

26.4 General reserve

Transfer to general reserve is made based on the discretion of the Board of Directors and is subject to the approval of the Shareholders at the annual general meeting.

26.5 Treasury shares

The Group holds 13,633,477 treasury shares (2017: 10,183,283 shares) amounting to AED 31.3 million (2017: AED 20.7 million).

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

27 Investments fair value reserve

	2018 AED'000	2017 AED'000
Balance at 1 January	(615,389)	(751,672)
Fair value (loss) / gain on other investments at FVTOCI, net	(234,885)	136,249
Transfer to retained earnings on disposal of FVTOCI investments	(88)	34
Balance at 31 December	(850,362)	(615,389)
	=====	=====

28 Exchange translation reserve

Exchange translation reserve relating to the translation of the results and net assets of the Bank's foreign operations from their functional currencies to the Bank's presentation currency (i.e. AED) are recognised directly in other comprehensive income and accumulated in the exchange translation reserve.

29 Dividends paid and proposed

The Board of Directors has proposed 35% cash dividend at their meeting held on 30 January 2019.

For the year ended 31 December 2017, the shareholders approved and paid a cash dividend of AED 0.45 per share (AED 2,219 million) at the Annual General Meeting held on 21 February 2018.

30 Contingent liabilities and commitments

Financing-related financial instruments include commitments to extend Islamic financing, standby letters of credit and guarantees which are designed to meet the requirements of the Group customers.

Commitments to extend Islamic financing represent contractual commitments to provide Islamic financing. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being utilised, the total contract amounts do not necessarily represent future cash requirements. Standby letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Analysis of contingent liabilities and commitments as at 31 December 2018 and 2017 is as follows:

	2018 AED'000	2017 AED'000
Contingent liabilities and commitments:		
Letters of guarantee	13,580,728	13,833,602
Letters of credit	1,851,911	1,852,179
Undrawn facilities commitments	17,818,629	14,884,834
Total contingent liabilities and commitments	33,251,268	30,570,615
Other commitments:		
Capital expenditure commitments	867,525	1,513,589
Total other commitments	867,525	1,513,589
Total contingent liabilities and commitments	34,118,793	32,084,204
	=====	=====

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

31 Income from Islamic financing and investing transactions

	2018 AED'000	2017 AED'000
Income from Islamic financing and investing assets	7,968,306	6,586,766
Income from investments in Islamic sukuk	1,189,570	1,047,491
Income from international murabahas with the Central Bank	233,833	99,150
Income from investment and wakala deposits with financial institutions	23,657	25,092
Income from international murabahas with financial institutions	65,849	36,083
Total	9,481,215 =====	7,794,582 =====

Income from financing and investing assets is presented net of forfeited income of AED 7.8 million (2017: AED 6.3 million). During the year ended 31 December 2018, the Group has paid AED 5.1 million (2017: AED 4.7 million) for various social contribution purposes.

32 Commissions, fees and foreign exchange income

	2018 AED'000	2017 AED'000
Commission and fees	1,176,781	1,048,101
Foreign exchange income	122,378	152,071
Fair value gain of Islamic derivatives	23,960	38,238
Other commissions and fees	152,830	168,097
Total	1,475,949 =====	1,406,507 =====

33 Income from other investments measured at fair value, net

	2018 AED'000	2017 AED'000
Dividend income from investments measured at FVTOCI	45,351	31,682
Realised loss on disposal of investments measured at FVTPL	(306)	(650)
Dividend income from investments designated at FVTPL	55	30
Unrealised loss on revaluation of investments measured at FVTPL	(15)	(24)
Total	45,085 =====	31,038 =====

34 Income from properties held for development and sale, net

	Note	2018 AED'000	2017 AED'000
Sales proceeds		412,845	666,701
Less: cost of sale	13.1	(289,041)	(470,072)
Total		123,804 =====	196,629 =====

35 Income from investment properties

Income from investment properties represents the net rental income amounting to AED 91.2 million (2017: AED 91.5 million) recognised by the Group from its investment properties and gain on disposal of investment properties of AED 64.3 million (2017: 27.3 million).

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

36 Other income

	<i>Note</i>	2018 AED'000	2017 AED'000
Realised gain on disposal of investments in Islamic sukuk		8,566	276,510
Services income, net		85,845	51,174
Net gain on disposal of property and equipment		179	180
Other		216,101	201,478
Total		310,691	529,342
		=====	=====

37 Depositors' and sukuk holders' share of profit

		2018 AED'000	2017 AED'000
Mudaraba investment and savings deposits from customers	18.4	528,444	472,730
Wakala and other investment deposits of banks and customers	21.2	2,569,701	1,716,520
Sukukholders' accrued/realised profit on sukuk issued	21.2	429,912	322,421
Total		3,528,057	2,511,671
		=====	=====

38 Personnel expenses

		2018 AED'000	2017 AED'000
Salaries, wages and other benefits		1,556,543	1,549,369
Staff terminal benefits	21.3	23,953	18,721
Total		1,580,496	1,568,090
		=====	=====

39 General and administrative expenses

		2018 AED'000	2017 AED'000
Premises and equipment maintenance costs		95,116	98,329
Administrative expenses		104,375	96,037
Rental charges under operating leases		117,793	122,937
Other operating expenses		290,520	285,075
Total		607,804	602,378
		=====	=====

40 Impairment charges, net

		2018 AED'000	2017 AED'000
Provision for Islamic financing and investing assets charged	9.3	1,789,383	1,909,262
Provision for Islamic financing and investing assets released	9.3	(869,492)	(1,073,843)
Net release for other assets and investment properties		(86,420)	(11,966)
		833,471	823,453
		=====	=====

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Notes to the consolidated financial statements for the year ended 31 December 2018

41 Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to owners of the Bank, net of directors' remuneration and profit attributable to Tier 1 sukukholders by the weighted average number of shares outstanding during the year as follows:

	2018 AED'000	2017 AED'000
Profit for the year attributable to owners of the Bank	4,916,313	4,322,195
Profit attributable to Tier 1 sukukholders	(477,490)	(477,490)
Board of Directors' remuneration	(20,501)	(19,360)
	<u>4,418,322</u>	<u>3,825,345</u>
	=====	=====
Weighted average number of shares outstanding during the year ('000)	6,118,017	5,556,767
	=====	=====
Basic and diluted earnings per share (AED per share)	0.72	0.69
	=====	=====

As of the reporting date, the diluted earnings per share is equal to the basic earnings per share as the Bank has not issued any financial instruments that should be taken into consideration when the diluted earnings per share is calculated.

42 Cash and cash equivalents

	Note	2018 AED'000	2017 AED'000
Cash and balances with the central banks	7.1	22,545,526	27,885,248
Due from banks and financial institutions	8.1	8,297,032	4,676,952
Due to banks and financial institutions	19.1	(13,203,228)	(14,877,554)
		<u>17,639,330</u>	<u>17,684,646</u>
Less: balances and deposits with banks and financial institutions with original maturity over three months		(128,375)	(199,694)
Add: Due to banks and financial institutions over three months		6,376,345	4,243,482
		<u>23,887,300</u>	<u>21,728,434</u>
		=====	=====
Balance at 31 December		23,887,300	21,728,434

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Notes to the consolidated financial statements for the year ended 31 December 2018

43 Related party transactions

43.1 Identification of related parties

Parties are considered to be related if one party has the ability to control or influence over the other party in making financial or operating decisions.

The Bank enters into transactions with shareholders, associates, directors, key management personnel and their related concerns in the ordinary course of business at terms agreed between both parties.

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

43.2 Major shareholders

As at 31 December 2018, the major shareholder of the Bank is Investment Corporation of Dubai ("ICD"), a company in which the Government of Dubai is the majority shareholder.

43.3 Significant balances and transactions

Proportion of various assets and liabilities with Investment Corporation of Dubai ("ICD") related entities, other than those that have been individually disclosed below are as follows. These entities are independently run commercial entities, and all financial transactions with the Bank are on agreed basis.

	2018	2017
	%	%
Islamic financing and investing assets	7.5	8.9
Customer deposits	9.2	8.4
Due to banks and financial institutions	8.3	1.5
Due from banks and financial institutions	30.8	42.4

43.4 Compensation of Directors and key management personnel

	2018	2017
	AED'000	AED'000
Salaries and other benefits, including directors' remuneration	76,788	67,236
Employee terminal benefits	911	651
	=====	=====

43.5 Related parties balances

Significant balances of related parties included in the consolidated financial statement are as follows:

	Major shareholders AED'000	Directors and key management personnel AED'000	Associates and joint ventures AED'000	Total AED'000
2018				
Islamic financing and investing assets	1,484,600	48,878	4,487	1,537,965
Investment in Islamic sukuk	1,498,303	-	-	1,498,303
Customers' deposits	4,262,887	131,988	15,499	4,410,374
Contingent liabilities and commitments	-	6	110	116
Income from Islamic financing and investing	71,725	1,775	355	73,855
Depositors' share of profits	132,867	2,811	1	135,679
Income from investment in Islamic sukuk	58,033	-	-	58,033

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Notes to the consolidated financial statements for the year ended 31 December 2018

43 Related party transactions (continued)

43.5 Related parties balances (continued)

	Major shareholders AED'000	Directors and key management personnel AED'000	Associates and joint ventures AED'000	Total AED'000
2017				
Islamic financing and investing assets	1,731,987	10,057	6,161	1,748,205
Investment in Islamic sukuk	1,581,182	-	-	1,581,182
Customers' deposits	7,666,437	91,110	12,891	7,770,438
Contingent liabilities and commitments	-	-	122	122
Income from Islamic financing and investing assets	79,018	588	426	80,032
Depositors' share of profits	98,284	1,464	-	99,748
Income from investment in Islamic sukuk	65,476	-	-	65,476

No impairment allowances have been recognised against Islamic financing and investing assets extended to related parties or contingent liabilities and commitments issued in favour of related parties during the years ended 31 December 2018 and 2017.

44 Segmental information

44.1 Reportable segments

Reportable segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group's reportable segments are organised into five major segments as follows:

- Consumer banking: Principally handling individual customers' deposits, providing consumer murabahas, salam, home finance, ijarah, credit cards and funds transfer facilities, priority banking and wealth management.
- Corporate banking: Principally handling financing, other credit facilities, deposits, current accounts, cash management and risk management products for corporate and institutional customers.
- Treasury: Principally responsible for managing the Bank's overall liquidity and market risk and provides treasury services to customers. Treasury also runs its own Islamic sukuk and specialises financial instruments book to manage the above risks.
- Real estate development: Property development and other real estate investments by a subsidiary.
- Others: Functions other than above core lines of businesses including investment banking services.

The accounting policies of the above reportable segments are the same as the Group's accounting policies.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

44 Segmental information (continued)

44.2 Segment profitability

The following table presents profit or loss and certain asset and liability information regarding the Group's business segments for the year ended 31 December:

	Consumer banking		Corporate banking		Treasury		Real estate development		Others		Total	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Net operating revenue	3,397,452	3,319,671	3,216,051	2,561,567	665,839	872,817	262,080	285,262	660,283	647,797	8,201,705	7,687,114
Operating expense	(1,380,118)	(1,421,895)	(366,904)	(358,429)	(56,402)	(42,359)	(157,085)	(155,066)	(361,493)	(357,893)	(2,322,002)	(2,335,642)
Impairment (loss)/release	(919,331)	(792,764)	(47,387)	(134,337)	10,940	114,207	29,995	-	92,312	(10,559)	(833,471)	(823,453)
Profit before income tax	1,098,003	1,105,012	2,801,760	2,068,801	620,377	944,665	134,990	130,196	391,102	279,345	5,046,232	4,528,019
Income tax expense											(42,414)	(24,439)
Profit for the year											5,003,818	4,503,580

44.3 Segment financial position

Following table presents assets, liabilities and equity regarding the Group's business segments:

	Consumer banking		Corporate banking		Treasury		Real estate development		Others		Total	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Segment assets	36,577,206	37,174,504	103,133,862	91,692,691	32,378,462	25,040,977	5,836,167	6,276,084	45,756,462	47,152,753	223,682,159	207,337,009
Segment liabilities	70,272,323	64,471,917	83,428,270	80,256,935	828,067	576,251	1,306,539	1,215,983	33,720,216	31,935,405	189,555,415	178,456,491

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44 Segmental information (continued)

44.4 Geographical information

Although the management of the Group is based primarily on business segments, the Group operates in two geographic markets: inside the U.A.E. which is designated as domestic and outside the U.A.E. which is designated as international.

The following table show the distribution of the Group's external gross income allocated based on the location of the operating centres for the years ended 31 December 2018 and 2017:

	Gross income from external customers	
	2018	2017
	AED'000	AED'000
Within the U.A.E.	11,124,153	9,645,290
Outside the U.A.E.	605,609	553,495
Total	11,729,762	10,198,785
	=====	=====

Gross income from external customers geographical analysis is based on the Group's operating centres and subsidiaries and associates locations.

Revenue from major products and services are disclosed in notes 31 to 36 to the consolidated financial statements.

45 Islamic derivatives financial instruments

45.1 Fair values of Islamic derivative financial instruments

The table below shows the positive and negative fair values of Islamic derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of an Islamic derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of Islamic derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

	Positive fair value (note 15.1) AED'000	Negative fair value (note 21.1) AED'000	Notional amount total AED'000	Notional amounts by term to maturity				
				Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 to 5 years AED'000	Over 5 years AED'000
2018								
<i>Islamic Derivatives held for trading:</i>								
Unilateral promise to buy/sell currencies	73,860	67,990	7,038,180	4,896,909	2,141,271	-	-	-
Islamic profit rate swaps	436,988	379,819	45,851,853	-	1,202,317	6,410,036	6,759,527	31,479,973
Islamic currency (Call/Put) options	4,654	4,655	557,652	-	557,652	-	-	-
Total	515,502	452,464	53,447,685	4,896,909	3,901,240	6,410,036	6,759,527	31,479,973
	=====	=====	=====	=====	=====	=====	=====	=====
2017								
<i>Islamic Derivatives held for trading:</i>								
Unilateral promise to buy/sell currencies	32,532	31,202	4,030,799	3,989,379	41,420	-	-	-
Islamic profit rate swaps	186,019	168,298	36,626,604	-	188,432	6,899,255	6,199,178	23,339,739
Islamic currency (Call/Put) options	10,907	10,907	822,870	468,073	25,995	328,802	-	-
Total	229,458	210,407	41,480,273	4,457,452	255,847	7,228,057	6,199,178	23,339,739
	=====	=====	=====	=====	=====	=====	=====	=====

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45 Islamic derivatives financial instruments (continued)

45.2 Types of Islamic derivatives

45.2.1 Unilateral Promise to buy/sell currencies

Unilateral promises to buy/sell currencies are promises to either buy or sell a specified currency at a specific price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase/sale offers and acceptances between the relevant parties and delivering (exchanging) the relevant currencies on spot basis.

45.2.2 Islamic Swaps

Islamic Swaps are based on a Waa'd (promise) structure between two parties to buy a specified Sharia'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swap structure comprises profit rate swap and currency swap. For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase/sale of commodity under "Murabaha Sale Agreement" in a single currency. For Islamic currency swaps, fixed or floating profit payments as well as cost of underlying commodity are exchanged in different currencies, by executing the purchase/sale of commodity under "Murabaha Sale Agreement".

46 Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities analysed according to when they are expected to be recovered or settled.

2018	Less than 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	No maturity AED'000	Total AED'000
Assets:						
Cash and balances with central banks	22,182,263	363,263	-	-	-	22,545,526
Due from banks and financial institutions	8,168,657	-	128,375	-	-	8,297,032
Islamic financing and investing assets, net	11,395,578	21,251,368	72,656,833	39,434,806	-	144,738,585
Investments in Islamic sukuk measured at amortised cost	954,745	1,391,857	11,046,175	17,785,748	-	31,178,525
Other investments measured at fair value	-	717,707	970,117	-	-	1,687,824
Investments in associates and joint ventures	-	-	-	-	1,928,629	1,928,629
Properties held for development and sale	-	-	-	-	1,448,975	1,448,975
Investment properties	-	-	-	-	4,495,054	4,495,054
Receivables and other assets	718,624	3,973,426	1,353,124	2,596	-	6,047,770
Property and equipment	2,405	6,722	31,529	825	1,272,758	1,314,239
Total assets	43,422,272	27,704,343	86,186,153	57,223,975	9,145,416	223,682,159
Liabilities and equity:						
Customers' deposits	55,119,843	66,354,387	34,027,310	155,776	-	155,657,316
Due to banks and financial institutions	6,826,883	5,665,336	711,009	-	-	13,203,228
Sukuk issued	-	257,110	11,924,721	189,137	-	12,370,968
Payables and other liabilities	4,638,854	2,146,949	1,232,898	-	-	8,018,701
Zakat payable	-	305,202	-	-	-	305,202
Equity	-	-	-	-	34,126,744	34,126,744
Total liabilities and equity	66,585,580	74,728,984	47,895,938	344,913	34,126,744	223,682,159

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46 Maturity analysis of assets and liabilities (continued)

	Less than 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	No maturity AED'000	Total AED'000
2017						
Assets:						
Cash and balances with central banks	27,618,862	266,386	-	-	-	27,885,248
Due from banks and financial institutions	4,477,258	-	199,694	-	-	4,676,952
Islamic financing and investing assets, net	11,621,848	20,092,377	69,315,339	32,304,663	-	133,334,227
Investments in Islamic Sukuk measured at amortised cost	783,058	1,843,891	9,599,759	11,795,972	-	24,022,680
Other investments measured at fair value	-	960,481	1,001,252	-	-	1,961,733
Investments in associates and joint ventures	-	-	-	-	2,135,931	2,135,931
Properties held for development and sale	-	-	-	-	1,274,406	1,274,406
Investment properties	-	-	-	-	3,570,154	3,570,154
Receivables and other assets	874,675	5,098,692	1,364,586	1,246	-	7,339,199
Property and equipment	3,325	9,294	43,593	1,140	1,079,127	1,136,479
Total assets	<u>45,379,026</u> =====	<u>28,271,121</u> =====	<u>81,524,223</u> =====	<u>44,103,021</u> =====	<u>8,059,618</u> =====	<u>207,337,009</u> =====
Liabilities and equity:						
Customers' deposits	52,366,014	65,252,186	29,543,588	19,163	-	147,180,951
Due to banks and financial institutions	10,634,072	3,697,086	546,396	-	-	14,877,554
Sukuk issued	-	-	8,521,108	137,599	-	8,658,707
Payables and other liabilities	4,474,105	1,818,829	1,165,973	-	-	7,458,907
Zakat payable	-	280,372	-	-	-	280,372
Equity	-	-	-	-	28,880,518	28,880,518
Total liabilities and equity	<u>67,474,191</u> =====	<u>71,048,473</u> =====	<u>39,777,065</u> =====	<u>156,762</u> =====	<u>28,880,518</u> =====	<u>207,337,009</u> =====

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47 Financial assets and liabilities

47.1 Financial instruments classification

The table below sets out the Group classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2018 and 2017:

	Fair value through OCI AED'000	Fair value through profit or loss AED'000	Amortised cost AED'000	Carrying amount AED'000
2018				
Financial assets				
Cash and balances with central banks	-	-	22,545,526	22,545,526
Due from banks and financial institutions	-	-	8,297,032	8,297,032
Islamic financing and investing assets, net	-	-	144,738,585	144,738,585
Investment in Islamic sukuk measured at amortised cost	-	-	31,178,525	31,178,525
Other investments measured at fair value	1,687,824	-	-	1,687,824
Receivables and other assets	-	515,502	5,389,290	5,904,792
	<u>1,687,824</u>	<u>515,502</u>	<u>212,148,958</u>	<u>214,352,284</u>
	=====	=====	=====	=====
Financial liabilities				
Customers' deposits	-	-	155,657,316	155,657,316
Due to banks and financial institutions	-	-	13,203,228	13,203,228
Sukuk issued	-	-	12,370,968	12,370,968
Payables and other liabilities	-	657,399	7,387,513	8,044,912
	<u>-</u>	<u>657,399</u>	<u>188,619,025</u>	<u>189,276,424</u>
	=====	=====	=====	=====
2017				
Financial assets				
Cash and balances with central banks	-	-	27,885,248	27,885,248
Due from banks and financial institutions	-	-	4,676,952	4,676,952
Islamic financing and investing assets, net	-	-	133,334,227	133,334,227
Investment in Islamic sukuk measured at amortised cost	-	-	24,022,680	24,022,680
Other investments measured at fair value	1,959,499	2,234	-	1,961,733
Receivables and other assets	-	229,458	6,952,562	7,182,020
	<u>1,959,499</u>	<u>231,692</u>	<u>196,871,669</u>	<u>199,062,860</u>
	=====	=====	=====	=====
Financial liabilities				
Customers' deposits	-	-	147,180,951	147,180,951
Due to banks and financial institutions	-	-	14,877,554	14,877,554
Sukuk issued	-	-	8,658,707	8,658,707
Payables and other liabilities	-	210,407	7,200,056	7,410,463
	<u>-</u>	<u>210,407</u>	<u>177,917,268</u>	<u>178,127,675</u>
	=====	=====	=====	=====

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47 Financial assets and liabilities (continued)

47.2 Fair value of financial instruments

This note provides information about how the Group determines the fair value of various financial assets and financial liabilities.

47.2.1 Fair value of the Group's financial assets and financial liabilities

All of the Group's financial assets and financial liabilities, which are reported at their fair value in these consolidated financial statements, are measured at fair value at end of each reporting period. The fair value of financial assets and financial liabilities are determined as follows:

- Fair value of all quoted other investments measured at fair value through profit or loss and at fair value through other comprehensive income (note 11) are based on quoted price in an active market (unadjusted);
- Fair value of all unquoted other investments measured at fair value through other comprehensive income (note 11) are mainly based on net asset value of the investees on measurement dates. The net asset value is an unobservable input and the Group has determined that the reported net asset value represents the fair value at end of the reporting period; and
- Fair value of all Islamic derivatives financial instruments (Sharia compliant profit rate swap and unilateral promise to buy/sell currencies) is based on present value calculation of the estimated future cash flows. Future cash flows are estimated, based on forward (promise) profit rates and/or exchange rates (from observable yield curves and/or forward exchange rates at the end of each reporting period) and contract (based on promise) profit and/or forward (promise) rates, estimated at a rate that reflects the credit risk of various counterparties.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable 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 in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable 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 for which significant unobservable adjustments or assumption are required to reflect differences between the instruments.

The table below summarises the Group's financial instruments' fair value according to fair value hierarchy:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
2018				
Investments measured at fair value through profit or loss				
Quoted equity instruments	-	-	-	-
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	717,707	-	-	717,707
Unquoted equity instruments and investment funds	-	-	970,117	970,117
Other assets				
Islamic derivative assets	-	515,502	-	515,502
Financial assets measured at fair value	717,707	515,502	970,117	2,203,326
	=====	=====	=====	=====
Other liabilities	-	452,464	204,935	657,399
	=====	=====	=====	=====

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47 Financial assets and liabilities (continued)

47.2 Fair value of financial instruments (continued)

47.2.1 Fair value of the Group's financial assets and financial liabilities (continued)

2017	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Investments measured at fair value through profit or loss				
Quoted equity instruments	2,234	-	-	2,234
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	958,248	-	-	958,248
Unquoted equity instruments and investment funds	-	-	1,001,251	1,001,251
Other assets				
Islamic derivative assets	-	229,458	-	229,458
Financial assets measured at fair value	960,482	229,458	1,001,251	2,191,191
	=====	=====	=====	=====
Other liabilities				
	-	210,407	-	210,407
	=====	=====	=====	=====

There were no transfers between Level 1, 2 and 3 during the years ended 31 December 2018 and 2017.

For liabilities at Level 3, a number of unobservable inputs are considered when estimating the fair value. A 5% change in relevant parameters used in fair value would increase/decrease the fair value of the liability by AED 10.9 million.

47.2.2 Reconciliation of Level 3 fair value measurement of financial assets measured at fair value through other comprehensive income

	2018 AED'000	2017 AED'000
Balance at 1 January	1,001,251	897,527
Losses in other comprehensive income	(38,889)	(4,840)
Added during the year	7,755	126,068
Disposals during the year	-	(17,504)
Balance at 31 December	970,117	1,001,251
	=====	=====

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47 Financial assets and liabilities (continued)

47.2.3 Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities (other than cash which is stated at level 2) recognised in the consolidated financial statement approximate their fair values and is included in level 3.

	Carrying amount AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
2018					
Financial assets:					
Investments in Islamic sukuk	31,178,525	27,077,950	-	3,482,640	30,560,590
	=====	=====	=====	=====	=====
Financial liabilities:					
Sukuk issued	12,370,968	11,920,517	-	446,124	12,366,641
	=====	=====	=====	=====	=====
2017					
Financial assets:					
Investments in Islamic sukuk	24,022,680	20,497,988	-	3,696,544	24,194,532
	=====	=====	=====	=====	=====
Financial liabilities:					
Sukuk issued	8,658,707	8,323,936	-	394,457	8,718,393
	=====	=====	=====	=====	=====

48 Financial risk management

48.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his responsibilities.

The Group is exposed to various risks including:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

48.1.1 Risk management structure

The Board of Directors, supported by the Board Risk Management Committee, Risk Management Committee of the management and Risk Management Department, is ultimately responsible for identifying, monitoring and controlling risks; however, there are other independent bodies / functions responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies.

Board Risk Management Committee

The Board Risk Management Committee has the overall responsibility for the development of the risk strategies, frameworks, policies and limits, and for recommending these strategies and policies to the Board of Directors. It is responsible for the fundamental risk issues, and manages and monitors relevant risk decisions.

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48 Financial risk management (continued)

48.1 Introduction (continued)

48.1.1 Risk management structure (continued)

Risk Management Committee

The day-to-day management of risk has been delegated to Risk Management Committee.

The Risk Management Committee has the overall responsibility to support the Board Risk Management Committee for the development and formulation of the risk strategy, frameworks, policies and limits. It is responsible for ensuring the compliance with all risk limits, monitoring risk exposures and implementing the regulatory guidelines issued by the regulatory bodies (e.g. The Central Bank of the U.A.E.).

Risk Management Department

The Risk Management is responsible for implementing and maintaining risk related procedures to ensure risk remains within the acceptable range as approved by the Board Risk Management Committee and the Board of Directors. The department is responsible for credit administration, portfolio management, credit risk, market risk, operational risk and overall risk control.

Asset and Liability Management Committee

Asset and Liability Management Committee (“ALCO”) is responsible for managing the Group’s assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal Audit Department

Risk management processes throughout the Group are audited periodically by the Internal Audit Department which examines both the adequacy of the procedures and the Group’s compliance with the procedures. Internal Audit Department comments on the results of their assessments with management, and reports its findings and recommendations to the Board Audit Committee.

48.1.2 Risk measurement and reporting systems

The Group measures risks using qualitative as well as quantitative methods for credit, market, liquidity and operational risks. Further, the Group also uses quantitative analysis and methods to support revisions in business and risk strategies as and when required. These analysis and methods reflect both the expected loss likely to arise in normal course of business or unexpected losses in an unforeseen event based on simple statistical techniques and probabilities derived from historical experience. The Group also runs stress scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Board of Directors and management. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries.

Information compiled from all the businesses is examined and processed in order to analyse the risk profile and identify early risks. This information is presented and explained to the management, management committees, the Risk Management Committee, and Board Risk Management Committee. Specialized reports are presented to the pertinent heads of business and are delivered with a frequency suited to the volatility of the risk. The report includes aggregate credit exposure, limit exceptions, liquidity, operational loss incidents and other risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for impairment losses on a quarterly basis.

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48 Financial risk management (continued)

48.1 Introduction (continued)

48.1.3 Model risk management

The Bank uses a number of quantitative models in many of its financial and business activities from underwriting a credit facility to reporting expected credit losses under the IFRS 9.

To manage the model risks, the Bank has developed and implemented Model Governance Framework which contains Bank wide development, implementation and validation policies and practices. According to the framework, all internally or externally developed risk quantification models that directly affect the financial reporting on expected credit losses require validation periodically (internally or externally). Model Risk Management Committee (MRMC) is responsible for overseeing all model related development, implementation of framework and performance of the models. MRMC reports to Risk Management Committee of the Bank.

The Framework establishes a systematic approach to manage the development, implementation, approval, validation and ongoing use of models. It sets out an effective governance and management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework is approved by the Risk Management Committee upon recommendation of MRMC.

The Bank has an independent validation function that performs independent model validation. It provides Fit-for-Purpose, Conditional Approval or Not Fit-for-Purpose recommendation to MRMC to approve the use of the new risk quantification / valuation models. In addition to new model validation, the validation function also evaluates the performance of existing models through an annual validation process.

48.1.4 Risk mitigation

As part of its overall risk management, the Group uses various methods to manage exposures resulting from changes in credit risks, liquidity risks, market risks (including profit rate risk, foreign exchange risk, and equity price risk), and operational risks.

The Group seeks to manage its credit risk exposures through diversification of financing and investing activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Group actively uses collateral to reduce its credit risks.

In order to guard against liquidity risk, management has diversified funding sources and assets are managed with overall liquidity in consideration maintaining a healthy balance of liquid assets (i.e. cash and cash equivalents).

The market risks are managed on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for movement and expectation of foreign currencies rate, bench mark profit rates and equity houses.

To manage all other risks, the Group has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

48.1.5 Risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the 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. Concentrations indicate the relative sensitivity of the Group performance to developments affecting a particular industry or geographical location.

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48 Financial risk management (continued)

48.2 Credit risk

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk measurement

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. Whilst some of the models for assessment of Real Estate projects are internally developed, others for the Corporate, Contracting and SME businesses have been acquired from Moody's and subsequently optimized and calibrated to the Group's internal rating scale. The models are housed with the Moody's Risk Analyst rating tool.

The rating tools are kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of securities for facilities provided, which is a common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for Islamic financing and investing assets are:

- Mortgages over residential and commercial properties;
- Corporate guarantees;
- Charges over business assets such as premises, machinery, vehicles and inventory; and
- Charges over financial instruments such as deposits and equity investments.

Islamic derivative financial instruments

Credit risk arising from Islamic derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit which require that the Bank makes payments in the event that the customer fails to fulfil certain obligations to other parties. This exposes the Group to a similar risk to Islamic financing and investing assets and these are mitigated by the same control processes and policies.

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48 Financial risk management (continued)

48.2 Credit risk (continued)

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

The table below shows the maximum exposure to credit risk by class of financial asset, including Islamic derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2018 AED'000	Gross maximum exposure 2017 AED'000
Balances with central banks	20,878,794	26,481,776
Due from banks and financial institutions	8,297,032	4,676,952
Islamic financing and investing assets	150,465,957	139,066,896
Investment in Islamic sukuk measured at amortised cost	31,268,322	24,022,680
Other investments measured at fair value	1,687,824	1,961,733
Receivables and other assets	6,646,455	7,893,154
	219,244,384	204,103,191
Contingent liabilities	15,432,639	15,685,782
Commitments	18,686,154	16,398,423
Total	253,363,177 =====	236,187,396 =====

48.2.2 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2018 AED'000	2017 AED'000
The U.A.E.	224,421,279	212,697,755
Other Gulf Cooperation Council (GCC) countries	9,647,147	6,558,510
Asia	13,405,831	10,484,879
Europe	4,416,400	5,138,865
Africa	467,606	797,960
Others	1,004,914	509,427
Total	253,363,177 =====	236,187,396 =====

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48 Financial risk management (continued)

48.2 Credit risk (continued)

48.2.2 Risk concentrations of the maximum exposure to credit risk (continued)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	Gross Maximum Exposure 2018 AED'000	Gross Maximum Exposure 2017 AED'000
Government	23,494,616	19,168,786
Financial Institutions	46,141,576	44,583,603
Real estate	48,386,477	43,068,395
Contracting	14,233,003	18,139,228
Trade	11,136,355	11,285,179
Aviation	21,852,705	19,763,982
Services and manufacturing	44,742,199	36,542,763
Consumer financing	29,498,112	29,932,627
Consumer home finance	13,878,134	13,702,833
Total	253,363,177 =====	236,187,396 =====

48.2.3 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial Islamic financing and investing facilities, charges over real estate properties, inventory, leased assets and trade receivables, and
- For retail Islamic financing and investing facilities, charge over assets and mortgages over properties.

The Group also obtains guarantees from parent companies for Islamic financing and investing assets granted to their subsidiaries, but the benefits are not included in the above table.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

48 Financial risk management (continued)

48.2 Credit risk (continued)

48.2.4 Analysis of credit quality

	Balances with central banks and due from banks and financial institutions AED'000	Islamic financing and investing assets AED'000	Investments in Islamic sukuk and other investments at fair value AED'000	Receivables and other assets AED'000	Contingent liabilities and commitments AED'000	Total AED'000
2018						
Individually impaired	-	5,030,370	-	1,069,895	-	6,100,265
Non-impaired exposures						
Neither past due nor impaired	29,175,826	142,005,402	32,956,146	5,576,560	34,118,793	243,832,727
Past due by less than 30 days	-	1,899,731	-	-	-	1,899,731
Past due by more than 30 days but less than 90 days	-	1,310,317	-	-	-	1,310,317
Past due by more than 90 days	-	220,137	-	-	-	220,137
Gross amount	<u>29,175,826</u>	<u>145,435,587</u>	<u>32,956,146</u>	<u>5,576,560</u>	<u>34,118,793</u>	<u>247,262,912</u>
Total gross maximum exposure	<u>29,175,826</u>	<u>150,465,957</u>	<u>32,956,146</u>	<u>6,646,455</u>	<u>34,118,793</u>	<u>253,363,177</u>
	=====	=====	=====	=====	=====	=====
Provisions for impairment	-	(5,727,372)	(89,797)	(660,224)	-	(6,477,393)
Net carrying amount	<u>29,175,826</u>	<u>144,738,585</u>	<u>32,866,349</u>	<u>5,986,231</u>	<u>34,118,793</u>	<u>246,885,784</u>
	=====	=====	=====	=====	=====	=====
2017						
Individually impaired	-	4,599,691	-	680,829	-	5,280,520
Non-impaired exposures						
Neither past due nor impaired	31,158,728	131,087,658	25,984,413	7,212,326	32,084,204	227,527,329
Past due by less than 30 days	-	1,847,364	-	-	-	1,847,364
Past due by more than 30 days but less than 90 days	-	1,270,575	-	-	-	1,270,575
Past due by more than 90 days	-	261,607	-	-	-	261,607
Gross amount	<u>31,158,728</u>	<u>134,467,204</u>	<u>25,984,413</u>	<u>7,212,326</u>	<u>32,084,204</u>	<u>230,906,875</u>
Total gross maximum exposure	<u>31,158,728</u>	<u>139,066,895</u>	<u>25,984,413</u>	<u>7,893,155</u>	<u>32,084,204</u>	<u>236,187,395</u>
	=====	=====	=====	=====	=====	=====
Provisions for impairment	-	(5,732,668)	-	-	-	(5,732,668)
Net carrying amount	<u>31,158,728</u>	<u>133,334,227</u>	<u>25,984,413</u>	<u>7,893,155</u>	<u>32,084,204</u>	<u>230,454,727</u>
	=====	=====	=====	=====	=====	=====

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

48 Financial risk management (continued)

48.2 Credit risk (continued)

48.2.4 Analysis of credit quality (continued)

Credit risk exposure of the Group's financial assets for each internal risk rating

	<i>Moody's equivalent grades</i>	Total 2018 AED'000	Total 2017 AED'000
Low risk			
<i>Risk rating class 1 to 3</i>	<i>Aaa – A3</i>	107,497,972	104,602,628
Moderate risk			
<i>Risk rating class 4 to 5</i>	<i>Baa1 – Ba3</i>	109,157,850	94,747,239
Fair risk			
<i>Risk rating classes 6 to 7</i>	<i>B1 - Caa3</i>	30,459,297	31,259,785
Default			
<i>Risk rating classes 8 to 11</i>	<i>Ca - C</i>	6,248,058	5,577,744
		253,363,177	236,187,396
		=====	=====

It is the Group policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of financing exposures across all lines of business, geographic regions and products. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group rating policy. The attributable risk ratings are assessed and updated regularly.

48.2.5 Impairment assessment

Refer to note 5.3.9 for impairment assessment under IAS 39 for the year ended 31 December 2017 and for staging of credit exposure to stages 1 to 3 and accordingly 12 month and life time ECL for year ended 31 December 2018.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

48 Financial risk management (continued)

48.2 Credit risk (continued)

48.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains statutory deposits with the central banks. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

The high quality of the asset portfolio ensures its liquidity and coupled with the Group's own funds and stable customer deposits help form a stable funding source. Even under adverse conditions, the Group has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool (in addition to other tools) for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

48.3.1 Liquidity risk management process

The Group liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury department, includes:

- Monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are financed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring financial position liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of Islamic financing and investing exposures maturities; and
- Monitoring liquidity ratios

48.3.2 Funding approach

Sources of liquidity are regularly reviewed by management to maintain a wide diversification by currency, geography, provider, product and term.

During the year ended 31 December 2013 and 31 December 2015, the Bank issued Tier 1 sukuk of AED 3,673 million (USD 1,000 million) each to diversify sources of funding to support business growth (note 25).

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2018

48 Financial risk management (continued)

48.3 Liquidity risk and funding management (continued)

48.3.3 Non-derivative cash flows

The table below summarises the maturity profile of the gross cash flows of the Group financial assets and liabilities as at 31 December 2018 and 2017. The amounts disclosed in the table are the contractual gross cash flows, whereas the Group manages the inherent liquidity risk based on expected gross cash flows.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the management expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 Years AED'000	Total AED'000
2018					
Customers' deposits	68,569,499	79,407,021	9,557,776	159,677	157,693,973
Due to banks and other financial institutions	5,484,613	5,672,249	2,154,680	-	13,311,542
Sukuk issued	-	260,752	13,546,483	286,057	14,093,292
Payables and other liabilities	4,348,863	2,146,949	1,232,898	-	7,728,709
Zakat payable	-	305,202	-	-	305,202
Total liabilities	78,402,975	87,792,173	26,491,837	445,734	193,132,718
	=====	=====	=====	=====	=====
	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 Years AED'000	Total AED'000
2017					
Customers' deposits	68,517,162	72,527,140	7,874,749	19,302	148,938,353
Due to banks and other financial institutions	8,516,206	5,915,537	568,863	-	15,000,606
Sukuk issued	-	-	9,679,979	140,132	9,820,111
Payables and other liabilities	2,587,816	3,646,078	1,225,013	-	7,458,907
Zakat payable	-	280,372	-	-	280,372
Total liabilities	79,621,184	82,369,127	19,348,604	159,434	181,498,349
	=====	=====	=====	=====	=====

Assets available to meet all of the liabilities and to cover outstanding commitments include cash and balances with central banks, Islamic financing and investing assets, other investments at fair value and items in the course of collection.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

48 Financial risk management (continued)

48.3 Liquidity risk and funding management (continued)

48.3.4 Contingent liabilities and commitments

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments:

	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
2018					
Contingent liabilities:					
Letters of guarantee	11,434,751	1,484,130	654,260	7,587	13,580,728
Letters of credit	724,993	1,027,808	99,110	-	1,851,911
	<u>12,159,744</u>	<u>2,511,938</u>	<u>753,370</u>	<u>7,587</u>	<u>15,432,639</u>
Capital expenditure commitments	-	-	867,525	-	867,525
Total	<u>12,159,744</u>	<u>2,511,938</u>	<u>1,620,895</u>	<u>7,587</u>	<u>16,300,164</u>
	=====	=====	=====	=====	=====
2017					
Contingent liabilities:					
Letters of guarantee	12,201,897	1,367,421	213,217	51,067	13,833,602
Letters of credit	1,466,525	381,959	3,695	-	1,852,179
	<u>13,668,422</u>	<u>1,749,380</u>	<u>216,912</u>	<u>51,067</u>	<u>15,685,781</u>
Capital expenditure commitments	2,763	-	1,510,826	-	1,513,589
Total	<u>13,671,185</u>	<u>1,749,380</u>	<u>1,727,738</u>	<u>51,067</u>	<u>17,199,370</u>
	=====	=====	=====	=====	=====

48.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Group is exposed to diverse financial instruments including securities, foreign currencies, equities and commodities.

The Group pays considerable attention to market risk. The Group uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by senior management; and
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on a timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the market risk policy in day-to-day operations. These are reviewed periodically to ensure they remain in line with the Group's general market risk policy. The Chief Risk Officer of the Bank ensures that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Bank is required to comply with the guidelines and regulations of the Central Bank of the U.A.E.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

48 Financial risk management (continued)

48.4 Market risk (continued)

48.4.1 Profit margin risk

The Group is not significantly exposed to risk in terms of repricing of its customer deposits since, in accordance with Islamic Sharia'a, the Group does not provide contractual rates of return to its depositors or investment account holders. The return payable to depositors and investment account holders is based on the principle of the Mudaraba by which the depositors and investment account holders agree to share the profit or loss made by the Group's Mudaraba asset pool over a given period.

48.4.2 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk through risk management strategies.

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

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in profit rates on the net income for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December 2018 and 2017.

Currency	Increase in basis points	2018 AED'000	2017 AED'000
Sensitivity of net profit income	50	103,051	85,979

48.4.3 Foreign exchange risk

The Group has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Group presentation currency, the U.A.E. Dirham.

The table below summarises the Group exposure to foreign currency exchange rate risk at 31 December 2018 and 2017. Included in the table are the Group financial instruments at their carrying amounts, categorised by currency.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

48 Financial risk management (continued)

48.4 Market risk (continued)

48.4.3 Foreign exchange risk (continued)

2018	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Other AED'000	Total AED'000
Financial Assets:							
Cash and balances with the central banks	21,394,566	677,421	-	-	-	473,539	22,545,526
Due from banks and financial institutions	6,646,321	1,230,936	107,023	6,670	45,572	260,510	8,297,032
Islamic financing and investing assets, net	105,553,606	33,875,485	1,190,589	-	-	4,118,905	144,738,585
Investment in Islamic sukuk measured at amortised cost	-	29,920,263	-	-	-	1,258,262	31,178,525
Other investments at fair value	725,103	816,957	129,257	-	-	16,507	1,687,824
Receivables and other assets	4,280,643	1,218,948	24,294	-	59,170	321,737	5,904,792
Total	138,600,239	67,740,010	1,451,163	6,670	104,742	6,449,460	214,352,284
	=====	=====	=====	=====	=====	=====	=====
Financial Liabilities:							
Customers' deposits	119,322,369	24,347,270	5,193,372	1,613,694	200,413	4,980,198	155,657,316
Due to banks and other financial institutions	5,202,653	7,646,502	-	11,706	28	342,339	13,203,228
Sukuk issued	-	12,181,831	-	-	-	189,137	12,370,968
Payables and other liabilities	5,888,914	1,671,641	153,064	39,802	18,055	273,436	8,044,912
Total	130,413,936	45,847,244	5,346,436	1,665,202	218,496	5,785,110	189,276,424
	=====	=====	=====	=====	=====	=====	=====
Net on balance sheet	8,186,303	21,892,766	(3,895,273)	(1,658,532)	(113,754)	664,350	25,075,860
Unilateral promise to buy/sell currencies	3,978,294	(6,205,769)	449,841	1,752,604	116,116	(93,867)	(2,781)
Currency position - long/(short)	12,164,597	15,686,997	(3,445,432)	94,072	2,362	570,483	25,073,079
	=====	=====	=====	=====	=====	=====	=====

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

48 Financial risk management (continued)

48.4 Market risk (continued)

48.4.3 Foreign exchange risk (continued)

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Other AED'000	Total AED'000
2017							
Financial Assets:							
Cash and balances with central banks	26,877,125	673,481	-	-	-	334,642	27,885,248
Due from banks and financial institutions	3,181,987	1,001,893	122,452	5,961	65,450	299,209	4,676,952
Islamic financing and investing assets, net	94,085,401	34,114,239	1,170,306	-	-	3,964,281	133,334,227
Investment in Islamic sukuk measured at amortised cost	-	22,623,411	-	-	-	1,399,269	24,022,680
Other investments at fair value	765,295	1,022,805	154,666	-	-	18,967	1,961,733
Receivables and other assets	6,683,851	344,625	24,618	-	12,797	116,129	7,182,020
Total	131,593,659	59,780,454	1,472,042	5,961	78,247	6,132,497	199,062,860
	=====	=====	=====	=====	=====	=====	=====
Financial Liabilities:							
Customers' deposits	119,084,616	20,760,283	2,095,651	32,981	153,625	5,053,795	147,180,951
Due to banks and other financial institutions	6,028,029	8,571,220	97,950	12	92	180,251	14,877,554
Sukuk issued	-	8,521,108	-	-	-	137,599	8,658,707
Payables and other liabilities	6,005,849	1,054,997	101,923	6,320	17,801	223,573	7,410,463
Total	131,118,494	38,907,608	2,295,524	39,313	171,518	5,595,218	178,127,675
	=====	=====	=====	=====	=====	=====	=====
Net on balance sheet	475,165	20,872,846	(823,482)	(33,352)	(93,271)	537,279	20,935,185
Unilateral promise to buy/sell currencies	2,834,093	(3,461,355)	438,748	128,611	54,966	4,329	(608)
Currency position - long/(short)	3,309,258	17,411,491	(384,734)	95,259	(38,305)	541,608	20,934,577
	=====	=====	=====	=====	=====	=====	=====

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

48 Financial risk management (continued)

48.4 Market risk (continued)

48.4.3 Foreign exchange risk (continued)

Sensitivity analysis - impact of fluctuation of various currencies on net income and equity

The tables below indicate the extent to which the Group was exposed to currency risk at 31 December 2018 and 2017 on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variables held constant on the consolidated statement of profit or loss (due to the changes in the fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated available-for-sale equity instruments). A negative amount in the table reflects a potential net reduction in consolidated statement of profit or loss and equity, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

Currency	Increase in currency rate in %	Effect on profit or loss 2018 AED'000	Effect on profit or loss 2017 AED'000
US Dollar	+2	315,424	371,246
GBP	+2	1,881	1,905
EURO	+2	2,099	1,161
Currency	Decrease in currency rate in %	Effect on profit or loss 2018 AED'000	Effect on profit or loss 2017 AED '000
US Dollar	-2	(315,424)	(371,246)
GBP	-2	(1,881)	(1,905)
EURO	-2	(2,099)	(1,161)

48.4.4 Foreign investment

The Group has income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Group presentation currency, the U.A.E. Dirham.

The table below indicates the change in profit before tax and equity had the result for the year ended 31 December 2018 and 2017 been translated at exchange rates against the AED adjusted, with all other variables held constant, by the assumed changes below. The sensitivity analyses do not take account of actions by the Group that might be taken to mitigate the effect of such changes.

Currency	Increase in currency rate in %	Effect on profit or loss 2018 AED'000	Effect on equity 2018 AED'000	Effect on profit or loss 2017 AED'000	Effect on equity 2017 AED'000
Pak Rupees	+5	4,013	25,113	2,839	27,011
Egypt Sterling	+5	396	4,588	441	4,307

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

48 Financial risk management (continued)

48.4 Market risk (continued)

48.4.4 Foreign investment (continued)

Currency	Decrease in currency rate in %	Effect on profit or loss 2018 AED'000	Effect on equity 2018 AED'000	Effect on profit or loss 2017 AED'000	Effect on equity 2017 AED'000
Pak Rupees	-5	(3,631)	(21,685)	(2,569)	(23,409)
Egypt Sterling	-5	(358)	(4,151)	(399)	(3,897)

48.4.5 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as fair value through other comprehensive income (FVTOCI) at 31 December 2018 and 2017) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	Change in market Indices %	Effect on other comprehensive income 2018 AED'000	Effect on other comprehensive income 2017 AED'000
Dubai Financial Market	± 5%	21,582	21,582
Abu Dhabi Exchange	± 5%	1,136	1,136
Bahrain Stock Exchange	± 5%	1,407	1,407
Other	± 5%	4,483	4,483

An increase of 5% in fair value of Level 3 financial instruments due to change in unquoted market price / valuation of financial instruments as at the reporting date would have increased the net assets attributable to the Bank by AED 48.5 million (2017: AED 50.1 million)

48.5 Operational risk

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or systems.

The Group has developed a detailed operational risk framework. The framework clearly defines roles and responsibilities of individuals/units across different functions of the Group that are involved in performing various operational risk management tasks. Operational Risk Management Framework will ensure that operational risks within the Group are properly identified, monitored, managed and reported. Key elements of the framework include process mapping, setting up loss data base, setting up of KRIs, risk analysis and risk management reporting.

The Group is currently using operational risk tracking system, i.e. ORMS to track operational risk events across the Group. The system houses five years of operational loss data. The subject system is also capable to record KRI, RCSA and scenario based fraud risk self-assessment.

In addition to ORMS, the Bank is also implementing eGRC system (centralized governance framework) for all control activities.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

48 Financial risk management (continued)

48.5 Operational risk (continued)

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operations risk in their respective functional areas. They operate within the Group's operational risk management framework and ensure that risk is being managed within their respective business units. The day-to-day management of operations risk is through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedure to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning.

49 Capital management

49.1 Capital management objective

The Group objectives with managing capital, which is a broader concept than the 'equity' on the face of consolidated financial position are:

- To comply with the capital requirements set by the Central Bank of U.A.E.;
- To safeguard the Group ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

49.2 Regulatory capital

The Group lead regulator the Central Bank of U.A.E. sets and monitors capital requirements for the Group as a whole. The Group and individual banking operations within the Bank are directly supervised by their respective local regulators.

The Group regulatory capital is analysed into following tiers:

- Common Equity Tier 1 (CET1), which includes fully paid up capital, statutory reserve, general reserve, retained earnings, exchange translation reserve and investment fair value reserve. Regulatory adjustments under Basel III include deductions of deferred tax assets, investments in banking and financial entities, and the shortfall of provisions to expected losses, if any;
- Tier 1 capital, which includes CET1, with additional items that consist of Tier 1 capital instruments and certain non-controlling interests in subsidiaries; and
- Tier 2 capital, which includes collective impairment allowance and qualifying subordinated liabilities.

Various limits are applied to elements of the capital base:

- Tier 2 capital cannot exceed 67% of tier 1 capital;
- Tier 1 capital must be a minimum of 7% of risk weighted assets; and
- Qualifying subordinated capital cannot exceed 50% of tier 1 capital.

The Group assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, and commodity risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

The Group is following the standardised approach for credit, market and operational risk, as permitted by the U.A.E. Central Bank and as per Pillar 1 of Basel 2.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates.

Dubai Islamic Bank P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2018

49 Capital management (continued)

49.2 Regulatory capital (continued)

No changes have been made to the objectives, policies and processes from the previous year. However, they are under constant review by the management.

During the years ended 31 December 2018 and 2017, the Bank complied in full with all its externally imposed capital requirements.

During the years ended 31 December 2018 and 2017, all banks operating in the U.A.E. were required to maintain a capital adequacy ratio at 12.75% and 12% respectively.

The Bank is computing and reporting Basel III ratios in accordance with guidelines of the Central Bank of U.A.E.

Capital Adequacy Ratio (CAR) under Basel III in accordance with regulations of the Central Bank of the U.A.E. is as follows:

	2018 AED'000	2017 AED'000
<i>Common Equity Tier 1 (CET1)</i>		
Share capital	6,589,585	4,942,189
Other reserves	10,860,963	7,787,629
Retained earnings	6,267,023	6,964,089
Cumulative deferred exchange losses	(1,051,515)	(484,615)
Investment fair value reserve	(850,362)	(615,389)
Non-controlling interest	-	36,480
Total CET 1 Capital	21,815,694	18,630,383
<i>Additional Tier 1 Capital</i>		
Tier 1 Sukuk	6,978,700	7,346,000
Deduction from capital	-	(2,072)
Total Additional Tier 1 Capital	6,978,700	7,343,928
Total Tier 1 Capital	28,794,394	25,974,311
<i>Tier 2 Capital</i>		
Collective impairment allowance	2,021,725	1,812,885
Deduction from capital	-	(2,072)
Total Tier 2 Capital	2,021,725	1,810,813
Total capital base	30,816,119	27,785,124
<i>Risk weighted assets</i>		
Credit risk	161,737,978	148,074,668
Market risk	1,520,866	1,959,686
Operational risk	13,266,610	11,934,690
Total risk weighted assets	176,525,454	161,969,044
<i>Capital Ratios</i>		
Capital adequacy ratio	17.5%	17.2%
Tier 1 Capital ratio	16.3%	16.0%
Common Equity Tier 1 ratio	12.4%	11.5%

The capital adequacy ratio for the year 2018 has been calculated after considering the impact of the proposed dividend as required by Capital Supply Standard and the related guidance issued by Central Bank of the UAE.

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Notes to the consolidated financial statements for the year ended 31 December 2018

50 Comparative information

Certain comparative amounts in consolidated statement of profit or loss and notes to the consolidated financial statement have been adjusted to conform to the current presentation.

51 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 30 January 2019.