

**Ajman Bank PJSC**

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

These audited financial statements are subject to approval of the Central Bank of U.A.E and adoption by shareholders at the annual general meeting.

**Ajman Bank PJSC**

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

<b>Contents</b>	<b><u>Pages</u></b>
<b>Independent auditor's report</b>	<b>1 - 6</b>
<b>Statement of financial position</b>	<b>7</b>
<b>Income statement</b>	<b>8</b>
<b>Statement of profit or loss and other comprehensive income</b>	<b>9</b>
<b>Statement of changes in equity</b>	<b>10</b>
<b>Statement of cash flows</b>	<b>11</b>
<b>Notes to the financial statements</b>	<b>12 - 84</b>

## INDEPENDENT AUDITOR'S REPORT

**The Shareholders**  
**Ajman Bank PJSC**  
**Ajman**  
**United Arab Emirates**

### **Report on the audit of the financial statements**

#### ***Opinion***

We have audited the financial statements of **Ajman Bank PJSC** (the "Bank"), **Ajman, United Arab Emirates** which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### ***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 *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Bank's financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Key audit matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**INDEPENDENT AUDITOR’S REPORT (continued)**

*Key audit matters (continued)*

Key audit matter	How the matter was addressed in our audit
<b>Impairment of carrying value of Islamic financing and investing assets as per IFRS 9</b>	
<p>The audit of Islamic financing and investing assets impairment is a key area of focus because of its size (representing 72 % of total assets) and due to the significance of the estimates and judgments used in classifying Islamic financing and investing assets into various stages and determining related provision requirements as per the expected credit loss. Further, there were significant changes in the accounting policies, extensive transition disclosure requirements and numerous estimates and judgements involved in the first time adoption of IFRS 9 which are detailed in Note 4 to the financial statements.</p> <p>The Bank has applied the requirement of IFRS 9 retrospectively without restating the comparative figures. The difference between previously reported carrying amounts as of 31 December 2017 and new carrying amounts as of 1 January 2018, mainly arising from impairment, has been recognized in the opening retained earnings.</p> <p>The key changes arising from the adoption of IFRS 9 are that the Bank’s credit losses are now based on expected credit losses rather than an incurred loss model. The description of accounting policies applied by the Bank post implementation of IFRS 9 are detailed in Note 4 to the financial statements.</p> <p>The Bank employs statistical models for ECL calculations including key variables used in the calculation of probability of default (PD), loss given default (LGD); and exposure at default (EAD), which are defined in Note 4 to the financial statements.</p>	<p>We obtained a detailed understanding of the Bank’s Islamic financing and investing assets business processes and the accounting policies on adoption of IFRS 9 including the critical accounting estimates and judgments used. We have audited the IFRS 9 Expected Credit Losses (ECL) models as of 1 January 2018 and 31 December 2018.</p> <p>We tested the design, implementation and operating effectiveness of the relevant controls, including overall governance controls over models applied by the Bank management.</p> <p>We understood and evaluated the theoretical soundness of the ECL model by involving our internal experts to ensure its compliance with the requirements of the standard. We tested the mathematical accuracy of the ECL model by performing recalculations on a sample basis of the Islamic financing and investing assets. We checked consistency of various inputs and assumptions used by the Bank’s management to determine impairment.</p> <p>We selected a sample of Islamic financing and investing assets and checked the accuracy of the Exposure at Default (EAD), appropriateness of the Probability of Default (PD) and calculations of the Loss Given Default (LGD) used by the management in their ECL calculations.</p> <p>We checked the appropriateness of the Bank’s determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. For samples of exposures, we checked the appropriateness of the Bank’s staging and challenged a sample of staging overrides undertaken by management.</p> <p>For forward looking assumptions used by the Bank’s management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information.</p>

**INDEPENDENT AUDITOR’S REPORT (continued)**

*Key audit matters (continued)*

<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<b>Impairment of carrying value of Islamic financing and investing assets as per IFRS 9 (continued)</b>	
<p>In determining the ECL provisions for loans and advances, the Bank applies significant judgements and estimates of the following areas:</p> <ul style="list-style-type: none"> <li>• Identification of significant increase in credit risk and credit impaired loans.</li> <li>• Qualitative and quantitative reasonable and supportable forward looking information.</li> <li>• Overrides in staging model applied to reflect current or future external factors that are not necessarily covered in the ECL model.</li> <li>• Assumptions used in determining financial condition of the counterparty and expected future cash flows.</li> </ul> <p>Individually assessed Islamic financing and investing assets represent mainly, corporate and retail Islamic financing and investing assets which are assessed in order to determine whether there exists any objective evidence that Islamic financing and investing assets are impaired. Islamic financing and investing assets are classified as impaired as soon as there is doubt about the borrower’s ability to meet payment obligations to the Bank in accordance with the original contractual terms and are classified as stage 3 as per IFRS 9.</p> <p>Impaired Islamic financing and investing assets are measured on the basis of the present value of expected future cash flows including observable market price or fair value of the collateral and many other factors which involve a significant degree of judgement.</p>	<p>For exposures determined to be individually impaired, we tested a sample of Islamic financing and investing assets and examined management’s estimate of future cash flows, assessed their reasonableness and checked the resultant provision calculations. Further, we focused our attention on individually significant exposures, where we tested the estimates and assumptions used by management underlying the impairment identification and quantification, valuation of underlying collateral by external experts and estimated recovery on default.</p> <p>We checked the appropriateness of the opening balance adjustments and have ensured Bank’s full compliance with the transitional disclosure requirements as per the relevant standards as well as the completeness and sufficiency of the year end disclosures.</p>

**INDEPENDENT AUDITOR’S REPORT (continued)**

***Key audit matters (continued)***

<b>Valuation of Islamic Investment Instruments</b>	
<p>Listed securities represent significant number on the statement of financial position and are one of the main driver of the Bank’s performance. Listed securities represented 8% of total assets of the Bank at 31 December 2018. There is a risk that the prices quoted in respect of the listed securities held by the Bank may not be reflective of fair value.</p> <p>Unlisted securities are valued using methodologies agreed by management and there are key inputs to the valuation calculations which reflect management’s judgement. There is a risk that the application of an inappropriate valuation methodology and/or the use of inappropriate assumptions could result in the valuation of unlisted securities being materially misstated.</p>	<p>Our audit procedures included testing the design and operating effectiveness of relevant controls in the Bank’s investment instruments valuation process.</p> <p>Valuation for the listed securities was assessed by understanding the design and implementation of key controls around listed securities and testing valuations directly with independent pricing sources.</p> <p>Valuation for unlisted securities was tested by reviewing and challenging management’s valuations for the full population, focusing on the appropriateness of the valuation methodology and assumptions used within the calculations (e.g. cash flow projections; growth projections; discount rate used).</p>

***Other information***

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Bank. We obtained Board of Directors’ report prior to the date of this auditor’s report, and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the financial statements and our auditor’s report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s 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 remaining information of the annual report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards 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 financial statements that are free from material misstatement, whether due to fraud or error.

**INDEPENDENT AUDITOR'S REPORT (continued)*****Responsibilities of the management and those charged with governance for the financial statements (continued)***

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

The Board of Directors and Board Audit Committee are responsible for overseeing the Bank's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Bank and business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

## INDEPENDENT AUDITOR'S REPORT (continued)

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

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

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

From the matters communicated with the Bank's Board Audit Committee, we determine those matters that were of most significance in the audit of the 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**

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the 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 Bank has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Bank's books of account;
- note 12 to the financial statements of the Bank discloses its investments in equity instruments during the financial year ended 31 December 2018;
- note 30 to the financial statements of the Bank discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018; and
- note 35 to the financial statements discloses social contributions made during the financial year ended 31 December 2018.

Further, as required by Article (114) 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.

**Deloitte & Touche (M.E.)**

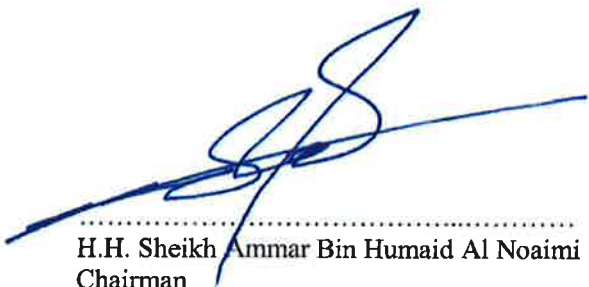


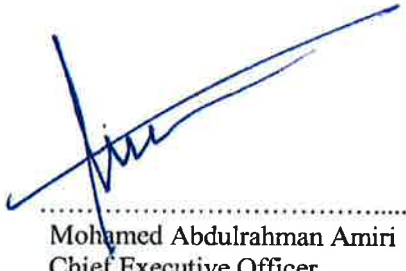
Akbar Ahmad  
Registration No. 1141  
16 January 2019  
Dubai  
United Arab Emirates



**Statement of financial position  
as at 31 December 2018**

	Notes	2018 AED'000	2017 AED'000
<b>ASSETS</b>			
Cash and balances with the Central Bank	9	2,558,366	1,378,410
Due from banks and other financial institutions	10	761,711	601,504
Islamic financing and investing assets, net	11	16,304,026	15,158,872
Islamic investments securities at fair value	12	1,892,608	1,912,254
Investment properties	13	658,131	580,448
Property and equipment	14	120,822	136,244
Other Islamic assets	15	349,061	259,922
<b>Total assets</b>		<b>22,644,725</b>	<b>20,027,654</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Islamic customers' deposits	16	17,203,533	14,323,879
Due to banks and other financial institutions	17	2,648,722	3,362,702
Other liabilities	18	345,622	230,615
<b>Total liabilities</b>		<b>20,197,877</b>	<b>17,917,196</b>
<b>Equity</b>			
Share capital	19	2,100,000	1,680,323
Statutory reserve	20	244,728	227,725
Investment fair value reserve		(64,325)	(65,206)
Retained earnings		166,445	267,616
<b>Total equity</b>		<b>2,446,848</b>	<b>2,110,458</b>
<b>Total liabilities and equity</b>		<b>22,644,725</b>	<b>20,027,654</b>

  
.....  
H.H. Sheikh Ammar Bin Humaid Al Noaimi  
Chairman

  
.....  
Mohamed Abdulrahman Amiri  
Chief Executive Officer

The accompanying notes form an integral part of these financial statements.

**Income statement  
for the year ended 31 December 2018**

	Notes	2018 AED'000	2017 AED'000
<b>Operating income</b>			
Income from Islamic financing and investing assets	22	847,322	681,630
Income from Islamic investments securities at fair value	23	69,825	86,589
Fees, commission and other income	24	124,924	149,084
		<u>1,042,071</u>	<u>917,303</u>
<b>Total operating income before depositors' share of profit</b>		<b>1,042,071</b>	917,303
Depositors' share of profits		(495,199)	(351,604)
		<u>546,872</u>	<u>565,699</u>
<b>Net operating income</b>			
<b>Expenses</b>			
Staff costs	25	(187,815)	(168,401)
General and administrative expenses	26	(56,257)	(52,045)
Depreciation of property and equipment	14	(16,296)	(16,842)
Impairment charge for financial assets	27	(112,616)	(195,797)
Impairment charge for non-financial assets	15	(3,854)	-
		<u>(376,838)</u>	<u>(433,085)</u>
<b>Total expenses</b>		<b>(376,838)</b>	(433,085)
		<u>170,034</u>	<u>132,614</u>
<b>Profit for the year</b>		<b>170,034</b>	132,614
		<u>0.097</u>	<u>0.077</u>
<b>Earnings per share (AED)</b>	28	<b>0.097</b>	0.077

The accompanying notes form an integral part of these financial statements.

**Statement of profit or loss and other comprehensive income  
for the year ended 31 December 2018**

	<b>2018</b> <b>AED'000</b>	2017 AED'000
<b>Profit for the year</b>	<b>170,034</b>	132,614
<b><i>Other comprehensive loss</i></b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Fair value loss on investments securities at FVTOCI	(45,407)	(23,546)
Reclassification adjustments relating to investments securities at FVTOCI	3,328	(7,541)
<b>Other comprehensive loss for the year</b>	<b>(42,079)</b>	(31,087)
<b>Total comprehensive income for the year</b>	<b>127,955</b>	101,527

The accompanying notes form an integral part of these financial statements.

**Statement of changes in equity  
for the year ended 31 December 2018**

	Share capital AED'000	Statutory reserve AED'000	Investment fair value reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2017	1,623,500	214,464	(34,119)	207,586	2,011,431
Profit for the year	-	-	-	132,614	132,614
Other comprehensive loss	-	-	(31,087)	-	(31,087)
Total comprehensive income for the year	-	-	(31,087)	132,614	101,527
Transfer to statutory reserve	-	13,261	-	(13,261)	-
Stock dividends (Note 21)	56,823	-	-	(56,823)	-
Directors' remuneration (Note 21)	-	-	-	(2,500)	(2,500)
<b>At 31 December 2017</b>	<b>1,680,323</b>	<b>227,725</b>	<b>(65,206)</b>	<b>267,616</b>	<b>2,110,458</b>
At 1 January 2018	1,680,323	227,725	(65,206)	267,616	2,110,458
Impact of adopting IFRS 9 at 1 January 2018	-	-	42,960	(190,481)	(147,521)
Restated balance at 1 January 2018	1,680,323	227,725	(22,246)	77,135	1,962,937
Profit for the year	-	-	-	170,034	170,034
Other comprehensive loss	-	-	(42,079)	-	(42,079)
Total comprehensive income for the year	-	-	(42,079)	170,034	127,955
Transfer to statutory reserve	-	17,003	-	(17,003)	-
Issuance of share capital (Note 19)	419,677	-	-	-	419,677
Issuance cost of share capital	-	-	-	(2,410)	(2,410)
Dividends (Note 21)	-	-	-	(58,811)	(58,811)
Directors' remuneration (Note 21)	-	-	-	(2,500)	(2,500)
<b>At 31 December 2018</b>	<b>2,100,000</b>	<b>244,728</b>	<b>(64,325)</b>	<b>166,445</b>	<b>2,446,848</b>

The accompanying notes form an integral part of these financial statements.

**Statement of cash flows  
for the year ended 31 December 2018**

	Note	2018 AED'000	2017 AED'000
<b>Cash flow from operating activities</b>			
Profit for the year		170,034	132,614
<i>Adjustments for:</i>			
Depreciation of property and equipment		16,296	16,842
Impairment charge on financial assets		112,616	195,797
Impairment of property and equipment		545	-
Impairment charge on other non-financial assets		3,854	-
Income from Islamic investments securities		(67,278)	(79,048)
Fair value adjustment of investment properties		(3,595)	(5,635)
Realized loss/(gain) on disposal of Islamic investments securities		2,133	(7,541)
Gain on disposal of property and equipment		(25)	-
		<hr/>	<hr/>
<b>Operating cash flows before changes in operating assets and liabilities</b>		234,580	253,029
<i>Changes in operating assets and liabilities:</i>			
Increase in Islamic financing and investing assets		(1,338,354)	(2,981,367)
Decrease/(increase) in due from banks and other financial institutions		945	(207,060)
Increase in statutory deposit with the Central Bank		(65,179)	(141,648)
(Increase)/decrease in other assets		(117,867)	109,141
Increase in Islamic customers' deposits		2,879,654	3,225,983
(Decrease)/increase in due to banks and other financial institutions		(713,980)	820,230
Increase/(decrease) in other liabilities		99,471	(119,162)
		<hr/>	<hr/>
<b>Cash generated from operations</b>		979,270	959,146
Payment of directors' remunerations		(2,500)	(2,500)
		<hr/>	<hr/>
<b>Net cash generated from operating activities</b>		976,770	956,646
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Purchase of Islamic investments securities		(479,172)	(3,448,076)
Proceeds from sale of Islamic investments securities		407,209	2,700,675
Purchase of property and equipment		(32,470)	(12,449)
Proceeds from disposal of property and equipment		76	-
Profit income on Islamic investments securities		88,588	79,048
Additions to investment properties		(43,088)	(252,415)
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		(58,857)	(933,217)
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Issuance of share capital		419,677	-
Issuance cost of share capital		(2,410)	-
Dividends paid		(58,811)	-
		<hr/>	<hr/>
<b>Net cash generated from financing activities</b>		358,456	-
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		1,276,369	23,429
Cash and cash equivalents at the beginning of the year		971,758	948,329
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	29	2,248,127	971,758
		<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form an integral part of these financial statements.

**Notes to the financial statements  
for the year ended 31 December 2018****1. General information**

Ajman Bank PJSC (the “Bank”) was incorporated as a Public Joint Stock Company. The registered address of the Bank is P.O. Box 7770, Ajman, United Arab Emirates (“UAE”). The Bank was legally incorporated on 17 April 2008 and was registered with the Securities and Commodities Authority (“SCA”) on 12 June 2008 and obtained a license from the Central Bank of the UAE to operate as a Head Office on 14 June 2008. On 1 December 2008, the Bank obtained a branch banking license from UAE Central Bank and commenced its operations on 22 December 2008.

In addition to its Head office in Ajman, the Bank operates through nine branches and two pay office in the UAE. The financial statements combine the activities of the Bank’s head office and its branches.

The principal activities of the Bank are to undertake banking, financing and investing activities through various Islamic financing and investment products such as Murabaha, Mudarba, Musharika, Wakala, Sukuk and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Sharia’a principles and within the provisions of its Memorandum and Articles of Association.

**2. Application of new and revised International Financial Reporting Standards (“IFRSs”)****2.1 New and revised IFRS applied with material effect on the financial statements**

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognized in the financial statements. The Bank did not early adopt any of IFRS 9 in previous periods.

As permitted by transitional provisions of IFRS 9, the Bank elected not to restate the comparative figures. Any adjustments to carrying amount of financial assets and liabilities at the date of transitions were recognized in opening retained earnings and other reserves of the current year. The Bank has also elected to continue to apply the hedge accounting requirements of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) on adoption of IFRS 9.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 ‘Financial Instruments: Disclosures’.

Set out below are the disclosures relating to the impact of IFRS 9 on the Bank. Further details of the specific IFRS 9 policies applied during the year are described in more details in Note 4.

The following table reconciles the original measurement categories and carrying amounts in accordance with IAS 39 and the new measurement categories with those under IFRS 9 for the Bank’s financial assets as at 1 January 2018:

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)**

**2.1 New and revised IFRS applied with material effect on the financial statements (continued)**

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount AED'000	Re-measurement AED'000	Impact of IFRS 9	
					Re-classification AED'000	New carrying amount AED'000
<b>Financial assets</b>						
Cash and balances with the Central Bank	Loans and receivables	Amortised cost	1,378,410	-	-	1,378,410
Due from banks and other financial institutions	Loans and receivables	Amortised cost	601,504	(500)	-	601,004
Islamic financing and investing assets, net	Loans and receivables	Amortised cost	15,158,872	(99,009)	-	15,059,863
Islamic investments securities at fair value	Available-for-sale	FVTOCI	1,720,994	(24,892)	-	1,696,102
Islamic investments securities at fair value	Available-for-sale	FVTPL	191,260	-	-	191,260
Foreign currency forward contracts	FVTPL	FVTPL	2,218	-	-	2,218
Other financial assets	Loans and receivables	Amortised cost	144,474	(12,483)	-	131,991
			<b>19,197,732</b>	<b>(136,884)</b>	<b>-</b>	<b>19,060,848</b>
<b>Financial liabilities</b>						
Islamic customers' deposits	Amortised cost	Amortised cost	14,323,879	-	-	14,323,879
Due to banks and other financial institutions	Amortised cost	Amortised cost	3,362,702	-	-	3,362,702
Other financial liabilities	Amortised cost	Amortised cost	164,944	10,637	-	175,581
			<b>17,851,525</b>	<b>10,637</b>	<b>-</b>	<b>17,862,162</b>
				<b>Retained earnings AED'000</b>	<b>Investment fair value reserve AED'000</b>	
Closing balance under IAS 39 (31 December 2017)				267,616	(65,206)	
<b><u>Impact on reclassification and remeasurements:</u></b>						
Islamic investments securities (equity) from available-for-sale to those measured at FVTPL				(16,920)	16,920	
				(16,920)	16,920	
<b><u>Impact on recognition of Expected Credit Losses</u></b>						
Due from banks and other financial institutions				(500)	-	
Islamic financing and investing assets				(99,009)	-	
Islamic investments securities at FVTOCI				(50,932)	26,040	
Other Islamic financial assets				(12,483)		
Financial commitments and financial guarantees				(10,637)		
				(173,561)	26,040	
Total impact of adopting IFRS 9				(190,481)	42,960	
Opening balance under IFRS 9 on date of initial application of 1 January 2018				77,135	(22,246)	

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)**

**2.1 New and revised IFRS applied with material effect on the financial statements (continued)**

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening Expected Credit Losses (ECLs) allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017 AED’000	Re- measurement AED’000	1 January 2018 AED’000
Due from banks and other financial institutions	-	500	500
Islamic financing and investing assets	547,616	99,009	646,625
Islamic investments securities at fair value through OCI	-	50,932	50,932
Other financial assets	2,985	12,483	15,468
Financial commitments and financial guarantees	-	10,637	10,637
	<u>550,601</u>	<u>173,561</u>	<u>724,162</u>

**2.2 New and revised IFRSs applied with no material effect on the financial statements**

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these financial statements. The application of these revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Associates and Joint Ventures (2011)*.
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration*  
The interpretation addresses foreign currency transactions or parts of transactions where:
  - there is consideration that is denominated or priced in a foreign currency;
  - the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
  - the prepayment asset or deferred income liability is non-monetary.
- Amendments to IFRS 2 *Share-based Payment* regarding classification and measurement of share based payment transactions.
- Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contracts standard.
- Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.



**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRS”)  
(continued)**

**2.2 New and revised IFRSs applied with no material effect on the financial statements (continued)**

• **IFRS 15 Revenue from Contracts with Customers**

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

- Amendments to IFRS 15 *Revenue from Contracts with Customers* to clarify six aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

**2.3 New and revised IFRS in issue but not yet effective**

The Bank has not yet applied the following new and revised IFRS that have been issued but are not yet effective:

<u><b>New and revised IFRS</b></u>	<u><b>Effective for annual periods beginning on or after</b></u>
Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3 <i>Business Combinations</i> , IFRS 11 <i>Joint Arrangements</i> , IAS 12 <i>Income Taxes</i> and IAS 23 <i>Borrowing Costs</i> .	1 January 2019

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)**

**2.3 New and revised IFRS in issue but not yet effective (continued)**

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
<p><i>IFRIC 23 Uncertainty over Income Tax Treatments</i></p> <p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively;</li> <li>• Assumptions for taxation authorities' examinations;</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and</li> <li>• The effect of changes in facts and circumstances.</li> </ul>	<p>1 January 2019</p>
<p><i>IFRS 16 Leases</i></p> <p>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.</p>	<p>1 January 2019</p>
<p><i>Amendments to IFRS 9 Financial Instruments: Relating to prepayment features with negative compensation.</i> This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.</p>	<p>1 January 2019</p>
<p><i>Amendments to IAS 28 Investment in Associates and Joint Ventures: Relating to long-term interests in associates and joint ventures.</i> These amendments clarify that an entity applies IFRS 9 <i>Financial Instruments</i> to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.</p>	<p>1 January 2019</p>

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRSs”)  
(continued)**

**2.3 New and revised IFRSs in issue but not yet effective (continued)**

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IAS 19 <i>Employee Benefits</i> regarding plan amendments, curtailments or settlements.	1 January 2019
Amendments to IAS 1 <i>Presentation of Financial Statements</i> regarding the definition of material.	1 January 2020
Amendments to IFRS 3 <i>Business Combinations</i> to clarify the definition of a business	1 January 2020
<p>The International Accounting Standards Board (IASB) has published its revised 'Conceptual Framework for Financial Reporting'. Included are revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure.</p> <p>Together with the revised Conceptual Framework, the IASB has also issued amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.</p>	
IFRS 17 <i>Insurance Contracts</i>	1 January 2022
<p>IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.</p>	
Amendments to IFRS 10 <i>Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Bank's financial statements for the period of initial application and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Bank in the period of initial application.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**3. Definitions**

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

**Murabaha**

Is a contract whereby the Bank (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.

**Wakala**

Is 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 or 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 the Wakala profit is distributed on declaration or distribution by the Wakeel. However, since the Wakala profit is always reliably estimated it is internally distributed 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 Bank may act either as Muwakkil or as Wakeel, as the case may be.

**Istisna’a**

Is a sale contract between two parties whereby the Bank (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 or development can be undertaken by third parties under the control and responsibility of the Sani’. Under an Istisna’a contract the Bank could be the Sani’ or the Mustasni’. Istisna’a profit (difference between the sale price of Al-Masnoo to the customer and the Bank’s 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.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**3. Definitions (continued)**

**Mudaraba**

Is 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 the Mudaraba profit is distributed on declaration or distribution by the Mudarib. However, since the Mudaraba profit is always reliably estimated it is internally distributed 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 Bank may act either as Mudarib or as Rab Al Mal, as the case may be.

**Musharaka**

Is an agreement between the Bank 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 or distribution by the managing partner. However, since the Musharaka profit is always reliably estimated, it is internally distributed 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 Bank 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.

**Ijarah**

Is an agreement whereby the Bank (the “Lessor”) leases an asset to its customer (the “Lessee”) (after purchasing or 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 or 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 rentals (which predominantly represent the cost of the leased assets).

**Sukuk**

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

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies**

**(a) Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws.

**(b) Basis of preparation**

The financial statements of the Bank have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account when pricing the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than that quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

**(c) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances held with Central and other Banks and highly liquid financial assets with original maturities of less than three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value, and are used by the Bank in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(d) Due from banks**

Due from banks are stated at cost less any amounts written-off and allowance for impairment, if any

**(e) Financial instruments**

***Significant accounting policies introduced on adoption of IFRS 9***

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

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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition

***Business model assessment***

The Bank 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:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- 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 frequency, volume and timing of sales in prior periods, the reasons for such sales and
- Its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

***Financial assets***

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(e) Financial instruments (continued)**

***Significant accounting policies introduced on adoption of IFRS 9 (continued)***

***Financial assets (continued)***

- (i) Financing instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and profit on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- (ii) Financing instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);
- (iii) all other financing instruments (e.g. instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:
  - (iv) the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and
  - (v) the Bank may irrevocably designate a financing instruments that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

***Islamic financing and investing assets***

Islamic financing and investing assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financing and receivables (including cash and cash equivalents, Islamic finance receivables, due from banks and other financial institutions, and other receivables) are measured at amortised cost using the effective profit method, less any impairment.

Profit income is recognised by applying the effective profit rate, except for short-term receivables when the effect of discounting is immaterial.

**(i) Financing instruments at amortised cost or at FVTOCI**

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and profit on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are payments of principal). Profit consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs, as well as a margin. The SPPI assessment is made in the currency in which the financial asset is denominated.



**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(e) Financial instruments (continued)**

***Significant accounting policies introduced on adoption of IFRS 9 (continued)***

***Financial assets (continued)***

**(i) Financing instruments at amortised cost or at FVTOCI (continued)**

Contractual cash flows that are SPPI are consistent with a basic financing arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Bank's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments which reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Bank has not identified a change in its business models.

When a financing instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Financing instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

**(ii) Financial assets at FVTPL**

Financial assets at FVTPL are:

- (i) assets with contractual cash flows that are not SPPI; or/and
- (ii) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- (iii) assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(e) Financial instruments (continued)**

***Significant accounting policies introduced on adoption of IFRS 9 (continued)***

***Financial assets (continued)***

**(ii) Financial assets at FVTPL (continued)**

***Fair value option***

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing related gains and losses on a different basis (an “accounting mismatch”). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category while they are held or issued. Financial assets designated as FVTPL are recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in investment income.

**(iii) Reclassifications**

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank’s financial assets. During the current period and previous accounting period, there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

**(iv) Impairment**

The Bank recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Due from banks and other financial institutions
- Islamic investments securities at FVTOCI
- Islamic financing and investing assets
- Off balance sheet exposures subject to credit risk

No impairment loss is recognised on Islamic equity investments.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(e) Financial instruments (continued)**

*Significant accounting policies introduced on adoption of IFRS 9 (continued)*

*Financial assets (continued)*

**(iv) Impairment (continued)**

With the exception of purchased or originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).
- A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.
- ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EPR.
- for undrawn financial commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the finance and the cash flows that the Bank expects to receive if the finance is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed financing instrument less any amounts that the Bank expects to receive from the holder, the customer or any other party.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of finances that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EPR, regardless of whether it is measured on an individual basis or a collective basis.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(e) Financial instruments (continued)**

*Significant accounting policies introduced on adoption of IFRS 9 (continued)*

*Financial assets (continued)*

**(v) Credit-impaired financial assets**

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or past due event;
- the financier of the customer, for economic or contractual reasons relating to the customer's financial difficulty, having granted to the customer a concession that the financier would not otherwise consider;
- the financier of the customer has downgraded the ratings because of deterioration in financial condition of the customer; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event-instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether financing instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate financing instruments are credit impaired, the Bank considers factors such as delinquency, watchlist indication, restructuring flag, deterioration in credit ratings and the ability of the customer to raise funding.

A financial asset is considered credit-impaired when a concession is granted to the customer due to a deterioration in the customer's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more. However, the cases where the impairment is not recognised for assets beyond 90 days overdue are supported by reasonable information.

**(vi) Purchased or originated credit-impaired (POCI) financial assets**

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(e) Financial instruments (continued)**

*Significant accounting policies introduced on adoption of IFRS 9 (continued)*

*Financial assets (continued)*

**(vii) Definition of default**

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- the customer is past due more than 90 days on any material credit obligation to the Bank; or
- the customer is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Further, the cases where the criteria of 90 days overdue are rebutted using reasonable information. When assessing if the customer is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate financing a qualitative indicator used is the 'watchlist flag', which is not used for retail financing. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

**(viii) Significant increase in credit risk**

The Bank monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Bank monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(e) Financial instruments (continued)**

***Significant accounting policies introduced on adoption of IFRS 9 (continued)***

***Financial assets (continued)***

**(viii) Significant increase in credit risk (continued)**

For corporate financing, forward-looking information includes the future prospects of the macroeconomic indicators like Crude Oil price, obtained from regulatory guidelines, economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, financing forward looking information includes the same economic forecasts as corporate financing with additional forecasts of local economic indicators.

The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The Bank considers the credit risk upon initial recognition of asset and whether there has been a significant increase in it on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customers in the group and changes in the operating results of the customer; and
- Macroeconomic information: in its models, the Bank relies on a broad range of forward looking information as economic inputs, such as: average oil prices, real estate Dubai and Abu Dhabi, inflation, ECI, hotel room occupancy etc. along with various transformations of the same. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis.

However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate financing there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

For retail financing, when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(e) Financial instruments (continued)**

***Significant accounting policies introduced on adoption of IFRS 9 (continued)***

***Financial assets (continued)***

**(ix) Modification and derecognition of financial assets**

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing finance would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the profit rate that arises when covenants are breached).

The Bank renegotiates finances to customers in financial difficulty to maximise collection and minimise the risk of default. A finance forbearance is granted in cases where although the customer made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the customer is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the finance, changes to the timing of the cash flows of the finance (principal and profit payment), reduction in the amount of cash flows due (principal and profit forgiveness) and amendments to covenants. The Bank has an established forbearance policy which applies for corporate and retail financing.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new finance is considered to be originated credit impaired. This applies only in the case where the fair value of the new finance is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the customer is in past due status under the new terms.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised financing for the proceeds received.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(e) Financial instruments (continued)**

***Significant accounting policies introduced on adoption of IFRS 9 (continued)***

***Financial assets (continued)***

**(ix) Modification and derecognition of financial assets (continued)**

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

**(x) Write-offs**

Financial assets are written off when there is no reasonable expectation of recovery, such as a customer failing to engage in a payment plan with the company. The company categorises a finance or receivable for write off after almost all possible avenues of payments have been exhausted. However where finences or receivables have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

***Financial liabilities***

**(i) Classification and subsequent measurement**

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: the classification is applied to Islamic derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and
- Financial guarantee contracts and financial commitments.

**Effective profit method**

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments (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 financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.



**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(e) Financial instruments (continued)**

*Significant accounting policies introduced on adoption of IFRS 9 (continued)*

*Financial liabilities (continued)*

**(ii) Derecognition**

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original financier of financing instruments with substantially different terms, as well as substantial modifications of the terms of existing liabilities, are accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective profit rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors such as, currency that the instrument is denominated in, changes in the type of profit rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of financing instruments or modification of terms is accounted for as an extinguishment, any cost or fees incurred are recognised as part of the gain or loss on extinguishment. If an exchange or modification is not accounted for as an extinguishment, any cost or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

**Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified customer fails to make payments when due in accordance with the terms of a financing instrument.

Financial guarantee contracts issued by a Bank entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position and the remeasurement is presented in other revenue.

The Bank has not designated any financial guarantee contracts as at FVTPL.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(e) Financial instruments (continued)**

**Islamic derivative financial instruments**

Islamic derivative financial instruments are primarily used in trading activities. These are also used to manage our exposure to profit, currency, credit and other market risks. All Islamic derivative financial instruments are recorded in statement of financial position at fair value.

When Islamic derivative financial instruments are used in trading activities, the realized and unrealized gains and losses on these Islamic derivative financial instruments are recognized in other income. Islamic derivative financial instruments with positive fair values are presented as asset and Islamic derivative financial instruments with negative fair values are reported as liabilities. In accordance with our policy for offsetting financial assets and financial liabilities, the net fair value of certain derivative assets and liabilities are reported as an asset or liability, as appropriate. Valuation adjustments are included in the fair value of Islamic derivative assets and Islamic derivative liabilities. Premiums paid and premiums received are part of Islamic derivative assets and Islamic derivative liabilities, respectively. When derivatives are used to manage our own exposures, we determine for each derivative whether hedge accounting can be applied.

**(f) Property and equipment**

***Recognition and measurement***

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

***Subsequent costs***

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the income statement as incurred.

***Depreciation***

Depreciation is recognised in statement of income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(f) Property and equipment (continued)**

*Depreciation (continued)*

The estimated useful lives for the current and comparative periods are as follows:

	Years
Leasehold improvements	7
Computers and software	3 to 7
Office furniture and equipment	5
Motor vehicles	5
Buildings	25

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Gain and losses on disposals are determined by comparing proceeds with the carrying amount. The differences are included in the income statement.

Capital work in progress is stated at cost. When commissioned, capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the Bank's accounting policies.

**(g) Investment properties**

Investment properties is held to earn rental income and/or capital appreciation. Investment properties includes cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment properties is reported at valuation based on fair value at the end of the reporting period. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment properties are included in the income statement in the period in which these gains or losses arise.

All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The fair value of Investment properties is based on the nature, location and condition of the specific asset.

**(h) Assets acquired in settlement of Islamic financing and investing assets**

The Bank occasionally acquires real estate and other collateral in settlement of Islamic financing and investing assets. Such real estate and other collateral are stated at the lower of the net realisable value of Islamic financing and investing assets and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation are recognised in the income statement.

**(i) Islamic customer deposits, due to bank and other financial institutions and other liabilities**

Islamic customer deposits, due to bank and other financial institutions and other liabilities are initially recognised at fair value and subsequently measured at amortised cost.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(j) Provisions and contingent liabilities**

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank 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 virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements.

**(k) Acceptances**

Acceptances are recognised as financial liabilities in the statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments with respect to acceptances have been accounted for as financial assets and financial liabilities.

**(l) Revenue recognition**

Income from Islamic financing and investing assets and Islamic investments securities, including fees which are considered an integral part of the effective profit of a financial instrument, are recognized in the income statement using the effective profit rate method.

**(m) Fees and other income**

Fees and other income from banking services provided by the Bank are recognized on an accrual basis when the service has been provided.

**(n) Dividend income**

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

**(o) Employees' benefits**

The Bank provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(p) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

**(q) Foreign currency transactions**

Transactions denominated in foreign currencies are translated into AED at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the foreign exchange rates ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into AED at the foreign exchange rates ruling on the date of the transaction. Realised and unrealised exchange gains and losses have been dealt within the income statement.

**(r) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is a person or group of persons that allocates resources and assesses the performance of the operating segments of an entity. The Bank has determined the Executive Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

**(s) Fiduciary activities**

The Bank 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 Bank's financial statements as they are not assets of the Bank.

**(t) Offsetting of financial assets and liabilities**

Financial assets and liabilities are offset and reported net in the statement of financial position only when there is a legally enforceable right to set off the recognised amounts or when the Branches intend to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**4. Summary of significant accounting policies (continued)**

**(u) Fair value measurement principles**

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, using the present value from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)****5. Critical accounting judgments and key sources of estimation of uncertainty**

The Bank's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgment, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgments for certain items are especially critical for the Bank's results and financial situation due to their materiality.

**Critical judgments in applying the Bank's accounting policies**

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in financial statements:

***Business model assessment***

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

***Significant increase of credit risk***

Significant increase of credit risk: As explained in Note 6, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets 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.

***Establishing groups of assets with similar credit risk characteristics***

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 (e.g. instrument type, credit risk, stage classification etc.). 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.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**5. Critical accounting judgments and key sources of estimation of uncertainty (continued)**

**Critical judgments in applying the Bank's accounting policies (continued)**

***Re-segmentation of portfolios and movement between portfolios***

Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

***Models and assumptions used***

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement 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.

***a) Classification of and measurement of financial assets and liabilities***

The Bank classifies financial instruments, or its component parts, at initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of the instruments. The substance of the financial instrument, rather than the legal form, governs its reclassification in the statement of financial position.

The Bank determines the classification at initial recognition and, when allowed and appropriate, re-evaluates this designation at every statement of financial position date.

In measuring financial assets and liabilities, some of the Bank's assets and liabilities are measured at a fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Bank uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Bank engages independent professionally qualified valuers to perform the valuation. The Bank works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

***b) Fair value measurement***

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, 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 where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.



**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**5. Critical accounting judgments and key sources of estimation of uncertainty (continued)**

**Critical judgments in applying the Bank's accounting policies (continued)**

*Models and assumptions used (continued)*

*c) Islamic derivative financial instruments*

Subsequent to initial recognition, the fair values of Islamic derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

- (i) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- (ii) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

**Key sources of estimation uncertainty**

The following are key estimations that the management has used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management**

The Bank's activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, and is subject to risk limits and other controls.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of realizable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

*Risk Management Framework*

Risk management is carried out by the Risk Management Division under policies that are approved by the Board of Directors. The Risk Management Division is responsible for the independent review of risk management and the control environment. The most important types of risks that the Bank is exposed to are, credit and concentrations risk, market risk and liquidity risk. Market risk includes profit rate risk, currency risk and price risk. The Bank is also subject to operational risks. The independent risk control process does not however, monitor business risks such as changes in the environment, technology and industry. These risks are monitored through the Bank's strategic planning process.

**6.1 Risk management structure**

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks of the Bank.

*Board of Directors*

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

*Executive committee*

Executive committee acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives.

*Audit committee*

The Audit committee consists of Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Bank's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Reviewing reports on the internal controls;
- Managing the relationship with the Bank's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Bank.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.1 Risk management structure (continued)**

*Sharia Board*

The Sharia Board is responsible for Sharia governance in terms of overview and approval of products and documentation in relation to Sharia compatibility and overall Sharia compliance.

*Risk & Compliance Committee of the Board ("RCC")*

This RCC assists the Board of Directors in discharging its responsibilities with respect to ensuring that the Bank's activities comply with the statutory laws and regulations, the system of internal control over financial reporting and with the Bank's code of conduct.

*Credit committee*

Credit committee manages the credit risk of the Bank by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the financing portfolio and the sufficiency of provisions thereof.

*Asset and Liability Committee ("ALCO")*

The objective of ALCO is to derive the most appropriate strategy for the Bank in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Bank's risk appetite and levels of exposure as determined by the Board of Directors.

*Human resource committee*

Human resource committee manages the resources, performance and requirement of individuals required by Bank on time to time basis.

*Risk Management Division ("RMD")*

The RMD is responsible for implementing and maintaining risk related procedures to ensure an independent control process. The RMD is also responsible for credit administration, compliance and risk management functions such as, credit risk management, market risk, operational risk and overall risk controls.

*Internal audit*

Management processes at the Bank are audited periodically by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of its assessments with management, and reports its findings and recommendations directly to the Audit Committee.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.1 Risk management structure (continued)**

**6.1.1 Risk measurement and reporting systems**

The Bank measures risks using conventional qualitative methods for credit, market and operational risks. Further, the Bank 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 Bank also runs stress scenarios that would arise in the event that extreme events which are unlikely to occur or, in fact, occur.

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

**6.1.2 Credit risk and concentrations of risk**

Credit risk is defined as the risk that the Bank's customers, clients or counter parties fail to perform or are unwilling to pay profit, repay the principal or otherwise to fulfil their contractual obligations under finance agreements or other credit facilities, thus causing the Bank to suffer a financial loss.

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the Bank, thereby resulting in the value of the assets to fall. As credit risk is the Bank's most significant risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the Bank.

***Credit risk measurement***

The Bank's Risk Management Framework assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. The framework has been developed internally and combines statistical analysis with credit officer judgment and is validated, where appropriate, by comparison with externally available data.

The Bank's exposure to credit risk is measured on an individual counterparty basis, as well as by group of counterparties that share similar attributes. To reduce the potential of risk concentration, credit limits have been established and are monitored in the light of changing counterparty and market conditions.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.1.2 Credit risk and concentrations of risk (continued)**

*Management of credit risk*

The Bank's Credit Risk Management Framework includes:

- Establishment of an authorization structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with the authorization structure and limits, prior to facilities being sanctioned to customers; renewals and reviews of facilities are subject to the same review process;
- Diversification of financing and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with the Bank's risk management strategy and market trends.

**6.1.3 Significant increase in credit risk**

The Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

**Internal credit risk ratings**

In order to minimize the credit risk, the Bank has acquired a globally acclaimed system for obligor and facility internal risk rating. It facilitates the analysis of credit proposals by putting a robust risk rating system as well as structurally supports the Bank in estimating various elements of risk. The system is comprised of 22 notch obligor risk rating in ten scales from 1 to 10. Such a credit risk grades are defined using both quantitative and qualitative factors that are indicative of default. The table below provides a mapping of the Bank's internal credit risk grades to external ratings.

<b>Bank's credit risk grades</b>	<b>Agency rating</b>	<b>Description</b>
1	AAA	Low to fair risk
2	AA+ to AA	Low to fair risk
3	A+ to A	Low to fair risk
4	BBB+ to BBB	Monitoring
5	BB+ to BB	Monitoring
6	B+ to B	Monitoring
7	CCC+	Substandard
8	CCC	Substandard
9	CC+ to CC-	Doubtful
10	C, D	Impaired

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.1.3 Significant increase in credit risk (continued)**

**Internal credit risk ratings (continued)**

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the Bank's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behavior, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, market data such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates etc.

The Bank analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as oil prices, non-oil commodities indexes, house prices in the United Arab Emirates and the tourism indicators. The Bank generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Bank then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Bank uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

**6.1.4 Incorporation of forward-looking information**

The Bank uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Bank employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Bank has not made changes in the estimation techniques or significant assumptions made during the reporting period.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.1.4 Incorporation of forward-looking information (continued)**

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2018 for the years 2019 to 2021, for the United Arab Emirates, which is the country where the Bank operates and therefore is the country that has a material impact in ECLs.

	2019	2020	2021
<b>Abu Dhabi Hotel room occupancy</b>			
• Base scenario	67.7%	69.8%	72.0%
• Range of upside scenarios	80.9%	85.8%	84.4%
• Range of downside scenarios	54.5%	53.9%	59.7%
	=====	=====	=====
<b>Dubai Hotel room occupancy</b>			
• Base scenario	77.5%	80.5%	83.6%
• Range of upside scenarios	92.1%	99.1%	100.2%
• Range of downside scenarios	62.9%	62.0%	67.1%
	=====	=====	=====
<b>Real estate Dubai (average residential price) AED/m<sup>2</sup></b>			
• Base scenario	13,673	13,277	14,297
• Range of upside scenarios	14,901	14,947	16,807
• Range of downside scenarios	12,444	11,606	11,787
	=====	=====	=====
<b>Real estate AD (average residential price) AED/m<sup>2</sup></b>			
• Base scenario	11,259	11,042	11,371
• Range of upside scenarios	12,251	12,327	12,681
• Range of downside scenarios	10,267	9,757	10,061
	=====	=====	=====
<b>Non-Oil ECI (% Quarterly YoY change)</b>			
• Base scenario	2.7%	3.9%	3.9%
• Range of upside scenarios	8.8%	9.1%	6.2%
• Range of downside scenarios	-3.3%	-1.3%	1.6%
	=====	=====	=====
<b>Average oil prices per barrel (\$)</b>			
• Base scenario	56.6	55.5	54.7
• Range of upside scenarios	79.7	80.1	72.0
• Range of downside scenarios	33.6	30.8	37.5
	=====	=====	=====

The principal macroeconomic indicators included in the economic scenarios used at 1 January 2018 for the years 2018 to 2020 were same as above.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 4 years. Other forward-looking considerations, such as GDP growth, unemployment, inflation, impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to ECL for such factors. This is reviewed and monitored for appropriateness at the end of each reporting period.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.1.5 Measurement of ECL**

The key elements used in the computation of ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These elements are derived from our internally developed statistical models based on our historical data and the data provided by the Central Bank of UAE. They are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate at a certain point in time. Such calculation is based on statistical rating models currently used by the Bank, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data, as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is an estimate of the loss magnitude arising on incase the customer defaults. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross-collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original effective profit rate (EPR) of the finance.

EAD represent the expected exposures in the event of a default. The Bank derives the EAD from the current exposures to the counterparty and the potential changes to the current amount allowed under the contract including amortization. The EAD for the On balance sheet items are its gross carrying amount whereas for off balance sheet items such as letters of credits, financial and general guarantees undrawn non-cancellable finance commitments are estimated by applying credit conversion factors on the committed exposures.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

**Groupings based on shared risks characteristics**

When ECL are measured on a collective basis, the financial instruments are grouped based on shared risk characteristics, such as:

- Instrument type;
- Credit risk grade;
- Collateral type.

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.



**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.1.5 Measurement of ECL (continued)**

The Bank has in place policies, which govern the determination of eligibility of various collaterals, to be considered for credit risk mitigation, which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigating. The Bank's major collaterals are mortgaged properties, investments, vehicles and deposits under lien.

The collateral is valued periodically ranging from quarterly to annually, depending on the type of collateral. Specifically for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

Maximum exposure to credit risk before collateral held or other credit enhancements:

	2018 AED'000	2017 AED'000
<b>Credit risk exposures relating to on-balance sheet assets are as follows:</b>		
Cash and balances with Central Bank	2,470,923	1,293,782
Due from banks and other financial institutions	762,151	601,504
Islamic financing and investing assets	17,042,068	15,706,488
Islamic investments securities at FVTOCI	1,692,478	1,912,254
Other Islamic assets	144,337	146,692
	<u>22,111,957</u>	<u>19,660,720</u>
<b>Credit risk exposures relating to off-balance sheet items are as follows:</b>		
Contingencies and commitments	<u>1,827,477</u>	<u>1,529,819</u>

***Risks relating to credit-related commitments***

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. These instruments expose the Bank to a similar risk to financing and investing assets and these are monitored by the same control processes and policies.

**6.1.6 Credit quality**

***Concentration of credit risk***

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 Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The Bank monitors concentrations of credit risk by industry sectors and geographic location. Identified concentration of credit risk is controlled and managed accordingly.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.2 Credit risk and concentrations of risk**

*Concentration of credit risk*

*By geographic location*

Based on the domicile of the counterparties, the following table sets out the Bank's main credit exposures at their carrying amounts, categorized by geographical region:

**On balance sheet items**

	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
<b>2018</b>				
Cash and balances with Central Bank	2,470,923	-	-	2,470,923
Due from banks and other financial institutions	630,716	124,185	7,250	762,151
Islamic financing and investing assets:				
- Retail	4,060,412	-	-	4,060,412
- Corporate	11,784,769	86,626	328,355	12,199,750
- Treasury	2,703	-	-	2,703
- Investments	779,203	-	-	779,203
Islamic investments securities at FVTOCI	860,708	792,534	39,236	1,692,478
Other assets	132,001	9,750	2,586	144,337
<b>Total</b>	<b>20,721,435</b>	<b>1,013,095</b>	<b>377,427</b>	<b>22,111,957</b>

**On balance sheet items**

	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
<b>2017</b>				
Cash and balances with Central Bank	1,293,782	-	-	1,293,782
Due from banks and other financial institutions	441,727	75,734	84,043	601,504
Islamic financing and investing assets:				
- Retail	4,015,541	6,577	-	4,022,118
- Corporate	10,919,201	133,531	274,280	11,327,012
- Treasury	2,703	-	-	2,703
- Investments	354,655	-	-	354,655
Islamic investments securities at FVTOCI	1,140,277	742,657	29,320	1,912,254
Other assets	134,916	9,508	2,268	146,692
<b>Total</b>	<b>18,302,802</b>	<b>968,007</b>	<b>389,911</b>	<b>19,660,720</b>

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.2 Credit risk and concentrations of risk (continued)**

*Concentration of credit risk (continued)*

*By geographic location (continued)*

**Off balance sheet items**

	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
<b>2018</b>				
Commitments	1,138,858	215,117	16,542	1,370,517
Letters of credit and guarantee	456,960	-	-	456,960
<b>Total</b>	<b>1,595,818</b>	<b>215,117</b>	<b>16,542</b>	<b>1,827,477</b>
	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
<b>2017</b>				
Commitments	763,109	207,462	8,289	978,860
Letters of credit and guarantee	550,959	-	-	550,959
<b>Total</b>	<b>1,314,068</b>	<b>207,462</b>	<b>8,289</b>	<b>1,529,819</b>

**Credit risk exposure per class of financial asset, internal rating and stage**

An analysis of the Bank's credit risk exposure per class of financial asset (subject to impairment), internal rating and stage without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. These amounts in the table represent gross carrying amounts. For financial commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

• **Due from banks and other financial institutions**

	2018				Total AED'000	2017 Total AED'000
	Stage 1 12 months ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Life time ECL AED'000	POCI Life time ECL AED'000		
Normal	483,674	278,477	-	-	762,151	601,504
Watchlist	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
<b>Gross carrying amount</b>	<b>483,674</b>	<b>278,477</b>	<b>-</b>	<b>-</b>	<b>762,151</b>	<b>601,504</b>
Impairment allowance	403	37	-	-	440	-
<b>Carrying amount</b>	<b>483,271</b>	<b>278,440</b>	<b>-</b>	<b>-</b>	<b>761,711</b>	<b>601,504</b>

Notes to the financial statements  
for the year ended 31 December 2018 (continued)

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Credit risk concentrations (continued)

• Islamic financing and investing assets

	Stage 1	Stage 2	2018	POCI		2017
	12 months	Life time	Stage 3	Life time	Total	Total
	ECL	ECL	Life time	ECL	AED'000	AED'000
	AED'000	AED'000	ECL	AED'000		AED'000
Normal	11,454,893	4,438,514	-	-	15,893,407	13,575,557
Watchlist	31,448	123,381	110,100	-	264,929	1,520,732
Substandard	-	-	48,832	-	48,832	156,988
Doubtful	-	-	194,531	-	194,531	110,801
Loss	-	-	640,369	-	640,369	342,410
<b>Gross carrying amount</b>	<b>11,486,341</b>	<b>4,561,895</b>	<b>993,832</b>	<b>-</b>	<b>17,042,068</b>	<b>15,706,488</b>
Impairment allowance	60,896	144,885	532,261	-	738,042	547,616
<b>Carrying amount</b>	<b>11,425,445</b>	<b>4,417,010</b>	<b>461,571</b>	<b>-</b>	<b>16,304,026</b>	<b>15,158,872</b>

• Islamic investments securities at FVTOCI

	Stage 1	Stage 2	2018	POCI		2017
	12 months	Life time	Stage 3	Life time	Total	Total
	ECL	ECL	Life time	ECL	AED'000	AED'000
	AED'000	AED'000	ECL	AED'000		AED'000
Normal	1,690,099	-	-	-	1,690,099	1,912,254
Watchlist	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	54,506	-	54,506	-
<b>Gross carrying amount</b>	<b>1,690,099</b>	<b>-</b>	<b>54,506</b>	<b>-</b>	<b>1,744,605</b>	<b>1,912,254</b>
Impairment allowance	2,049	-	50,078	-	52,127	-
<b>Carrying amount</b>	<b>1,688,050</b>	<b>-</b>	<b>4,428</b>	<b>-</b>	<b>1,692,478</b>	<b>1,912,254</b>

Notes to the financial statements  
for the year ended 31 December 2018 (continued)

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

• Other financial assets

	2018				Total AED'000	2017 Total AED'000
	Stage 1 12 months ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Life time ECL AED'000	POCI Life time ECL AED'000		
	Normal	139,342	-	-		
Watchlist	-	4,843	-	-	4,843	27,691
Substandard	-	-	36	-	36	26
Doubtful	-	-	79	-	79	178
Loss	-	-	27,896	-	27,896	15,302
<b>Gross carrying amount</b>	<b>139,342</b>	<b>4,843</b>	<b>28,011</b>	<b>-</b>	<b>172,196</b>	<b>149,677</b>
Impairment allowance	-	1	27,858	-	27,859	2,985
<b>Carrying amount</b>	<b>139,342</b>	<b>4,842</b>	<b>153</b>	<b>-</b>	<b>144,337</b>	<b>146,692</b>

• Financial commitments and financial guarantees

	2018				Total AED'000	2017 Total AED'000
	Stage 1 12 months ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Life time ECL AED'000	POCI Life time ECL AED'000		
	Normal	1,798,501	-	-		
Watchlist	13,019	-	-	-	13,019	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	15,957	-	15,957	-
Loss	-	-	-	-	-	-
<b>Gross carrying amount</b>	<b>1,811,520</b>	<b>-</b>	<b>15,957</b>	<b>-</b>	<b>1,827,477</b>	<b>1,529,819</b>
Impairment allowance	7,994	-	7,542	-	15,536	-
<b>Carrying amount</b>	<b>1,803,526</b>	<b>-</b>	<b>8,415</b>	<b>-</b>	<b>1,811,941</b>	<b>1,529,819</b>

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.2 Credit risk and concentrations of risk (continued)**

**Expected credit loss allowance**

This table summarises the ECL allowance at the end of reporting period by class of financial asset.

	<b>2018</b>	2017
	<b>AED'000</b>	AED'000
Due from banks and other financial institutions	<b>440</b>	-
Islamic financing and investing assets	<b>738,042</b>	547,616
Islamic investments securities at FVTOCI*	<b>52,127</b>	-
Other Islamic financial assets	<b>27,859</b>	2,985
Financial commitments and financial guarantees	<b>15,536</b>	-
<b>Total</b>	<b>834,004</b>	550,601

\* Impairment allowance is recognised under “Revaluation reserve of investments designated at FVTOCI”

The tables below analyse the movement of the ECL allowance during the year per class of financial assets.

**Due from banks and other financial institutions**

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>12-month</b>	<b>Life time</b>	<b>Lifetime</b>	<b>Total</b>
	<b>ECL</b>	<b>ECL</b>	<b>ECL</b>	<b>ECL</b>
	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>
Loss allowance as at 31 December 2017	-	-	-	-
Restatement of the prior year	463	37	-	500
Loss allowance as at 1 January 2018	463	37	-	500
Change in credit risk	(60)	-	-	(60)
<b>Impairment allowance as at 31 December 2018</b>	<b>403</b>	<b>37</b>	<b>-</b>	<b>440</b>

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.2 Credit risk and concentrations of risk (continued)**

**Islamic financing and investing assets**

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 31 December 2017	32,491	172,194	342,931	547,616
Restatement of the prior year	17,698	93,794	(12,483)	99,009
Loss allowance as at 1 January 2018	50,189	265,988	330,448	646,625
Changes in the loss allowance				
- Transfer to stage 1	18,350	(18,350)	-	-
- Transfer to stage 2	(6,219)	6,219	-	-
- Transfer to stage 3	-	(14,483)	14,483	-
Change in credit risk	(12,107)	(1,292)	120,091	106,692
New financial assets recognized	16,492	53,829	76,166	146,487
Financial assets derecognized	(5,809)	(147,026)	(6,153)	(158,988)
Write-offs	-	-	(2,774)	(2,774)
Loss allowance as at 31 December 2018	<b>60,896</b>	<b>144,885</b>	<b>532,261</b>	<b>738,042</b>

**Islamic investments securities at FVTOCI**

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 31 December 2017	-	-	-	-
Restatement of the prior year	854	50,078	-	50,932
Loss allowance as at 1 January 2018	854	50,078	-	50,932
Changes in the loss allowance				
- Transfer to stage 1	-	-	-	-
- Transfer to stage 2	-	-	-	-
- Transfer to stage 3	-	(50,078)	50,078	-
Change in credit risk	9	-	-	9
New financial assets recognised	1,290	-	-	1,290
Financial assets derecognized	(104)	-	-	(104)
Loss allowance as at 31 December 2018	<b>2,049</b>	<b>-</b>	<b>50,078</b>	<b>52,127</b>

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.2 Credit risk and concentrations of risk (continued)**

**Financial commitments and financial guarantees**

	<b>Stage 1 12-month ECL AED'000</b>	<b>Stage 2 Life time ECL AED'000</b>	<b>Stage 3 Lifetime ECL AED'000</b>	<b>Total AED'000</b>
Loss allowance as at 31 December 2017	-	-	-	-
Restatement of the prior year	10,637	-	-	10,637
Loss allowance as at 1 January 2018	10,637	-	-	10,637
Changes in the loss allowance				
- Transfer to stage 1	-	-	-	-
- Transfer to stage 2	-	-	-	-
- Transfer to stage 3	(1,703)	-	1,703	-
Change in credit risk	(1,941)	-	4,214	2,273
New financial assets recognised	2,688	-	1,625	4,313
Financial assets derecognized	(1,687)	-	-	(1,687)
<b>Loss allowance as at 31 December 2018</b>	<b>7,994</b>	<b>-</b>	<b>7,542</b>	<b>15,536</b>

As discussed above in the significant increase in credit risk section, under the Bank's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for Islamic financing and investing assets to customers and more specifically for retail financing exposures because for corporate financing and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of Islamic financing and investing assets to customers by past due status:

	<b>2018</b>		<b>2017</b>	
	<b>Gross carrying amount AED'000</b>	<b>ECL AED'000</b>	<b>Gross carrying amount AED'000</b>	<b>ECL AED'000</b>
Past due up to 30 days	15,244,136	114,136	14,147,991	191,828
Past due 31 - 60 days	325,600	35,273	237,783	3,224
Past due 61 - 90 days	584,752	56,372	710,515	9,634
Past due 91 - 180 days	247,211	97,523	267,789	87,768
Past due of more than 180 days	640,369	434,738	342,410	255,162
	<b>17,042,068</b>	<b>738,042</b>	<b>15,706,488</b>	<b>547,616</b>



**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.2 Credit risk and concentrations of risk (continued)**

*Modified financial assets*

As a result of the Bank's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition.

Financial assets (with loss allowance based on lifetime ECL) modified during the period

	2018 AED'000	2017 AED'000
Gross carrying amount before modification	785,394	478,786
Impairment allowance before modification	(6,983)	(17,444)
Net amortized cost before modification	<u>778,411</u>	<u>461,342</u>
Net amortized cost after modification	<u>778,411</u>	<u>228,999</u>

**Collateral held as security and other credit enhancements**

The Bank holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The Bank holds financial instrument of AED 2.83 billion for which no loss allowance is recognised because of collateral at 31 December 2018. The main types of collateral and the types of assets these are associated with are listed below.

**Mortgage financing**

The Bank holds residential and commercial properties as collateral for the mortgage financing it grants to its customers. The Bank monitors its exposure to retail mortgage financing using the LTV ratio, which is calculated as the ratio of the gross amount of the finance, or the amount committed for financing commitments, to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. At 31 December 2018 the net carrying amount of credit impaired mortgage financing was AED 93 million (2017: AED 54 million) and the value of the respective collateral was AED 142 million (2017: AED 75 million).

**Personal financing**

The Bank's personal financing portfolio consists of unsecured financing and credit cards.

**Corporate financing**

The Bank requests collateral and guarantees for corporate financing. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason, the valuation of collateral held against corporate financing is not routinely updated. The valuation of such collateral is updated if the financing is put on "watch-list" and is therefore monitored more closely.

For credit-impaired financing the Bank obtains appraisals of collateral to inform its credit risk management actions. At 31 December 2018 the net carrying amount of credit impaired Islamic financing and investing assets to corporate customers was AED 523 million (2017: AED 231 million) and the value of the respective collateral was AED 1,039 million (2017: AED 608 million).

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.2 Credit risk and concentrations of risk (continued)**

**Collateral held as security and other credit enhancements (continued)**

**Islamic investments securities**

*Islamic investments securities*

Islamic investments securities comprise of investment in Sukuk and equity shares.

The table below presents analysis of investments by external rating agency at 31 December 2018 and 2017:

	2018 AED'000	2017 AED'000
AA to AA-	-	-
A+ to A-	486,471	520,942
BBB+ to BBB-	338,940	451,843
BB+ to BB	410,554	377,647
B+ to B-	34,808	-
CCC	-	-
Unrated	621,835	561,822
	<u>1,892,608</u>	<u>1,912,254</u>

**Assets obtained by taking possession of collateral**

The Bank obtained the following financial and non-financial assets during the year by taking possession of collateral held as security against Islamic financing and investing assets and held at the year end. The Bank's policy is to realise collateral on a timely basis. The Bank does not use non-cash collateral for its operations.

	2018 AED'000	2017 AED'000
Property	9,212	6,120
<b>Total assets obtained by taking possession of collateral</b>	<u>9,212</u>	<u>6,120</u>

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.3 Market risk**

Market risk arises from changes in market rates such as market price, foreign exchange and profit rate. 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, currency rates and price movements. The Bank uses appropriate models, based on 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.
- Independent mark-to-market valuations, reconciliation of positions and tracking of stop-losses for trading positions are performed on a timely basis.

The policies, procedures and the trading limits are set to ensure the effective implementation of the Bank's market risk policies. These policies are reviewed periodically to ensure they remain in line with the Bank's overall market risk policies.

***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 Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets, liabilities and off-balance sheet instruments that mature or re-price in a given period.

The Bank is exposed to the effects of fluctuations in the prevailing levels of profit rates which arise from the Islamic financing and investing assets amounting to AED 16,304 million (2017: AED 15,159 million), Islamic investments securities amounting to AED 1,692 million (2017: AED 1,721 million), International Murabaha with Central Bank AED 1,800 million (2017: AED 645 million), Due from banks and financial institutions AED 762 million (2017: AED 601 million), customer deposits amounting to AED 14,757 million (2017: AED 11,522 million) and AED 2,619 million (2017: AED 3,333 million) from due to banks and other financial institutions.

***Sensitivity analysis***

The amount mentioned in the table below reflect an equal but opposite potential effect on profit or loss based on assumed 50 basis point negative or positive movement in profit rates with all other variables being constant.

	2018		2017	
	Total AED'000	Effect on profit/(loss) AED'000	Total AED'000	Effect on profit/(loss) AED'000
Profit bearing asset	<u>20,518,620</u>	<u>58,369</u>	<u>18,126,010</u>	<u>44,289</u>
Profit bearing liabilities	<u>17,375,782</u>	<u>48,171</u>	<u>14,855,258</u>	<u>48,892</u>

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.3 Market risk (continued)**

*Currency risk*

The Bank is not significantly exposed to movements in foreign currency exchange rates as its asset and liabilities are mainly denominated in AED, GCC currency or USD.

*Price risk*

Price risk is the possibility that investment pricing will fluctuate, affecting the fair value of investments and other instruments that derive their value from a particular instrument or index of price.

The Bank manages the price risk by maintaining a diversified portfolio in terms of geographical and industry distribution.

The amount mentioned in the table below reflect an equal but opposite potential effect on profit before tax and investments based on assumed 5% strengthening or weakening prices with all other variable constant.

	<b>Benchmark</b>	<b><i>Impact on profit/(loss)</i></b>	
		<b>2018</b>	<b>2017</b>
		<b>AED'000</b>	<b>AED'000</b>
Islamic investments securities at FVTPL	± 5%	<b>10,006</b>	<b>-</b>

	<b>Benchmark</b>	<b><i>Impact on equity</i></b>	
		<b>2018</b>	<b>2017</b>
		<b>AED'000</b>	<b>AED'000</b>
Islamic investments securities at FVTOCI	± 5%	<b>94,630</b>	<b>95,613</b>

**6.4 Liquidity risk management**

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. 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 primary tool 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.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)  
6.4 Liquidity risk management (continued)**

**Maturity profile:**

The maturity profile of the assets and liabilities at 31 December 2018 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

<b>Assets</b>	<b>Within 3 months AED'000</b>	<b>Over 3 to 6 months AED'000</b>	<b>Over 6 to 12 months AED'000</b>	<b>Over 1 to 5 years AED'000</b>	<b>Over 5 years AED'000</b>	<b>Undated AED'000</b>	<b>Total AED'000</b>
Cash and balances with central bank	2,558,366	-	-	-	-	-	2,558,366
Due from banks and other financial institutions	381,941	150,638	155,715	73,417	-	-	761,711
Islamic financing and investing assets, net	3,626,874	769,989	639,503	4,767,127	6,500,533	-	16,304,026
Islamic investments securities at fair value	-	-	-	628,883	1,263,725	-	1,892,608
Investment properties	-	-	-	-	-	658,131	658,131
Property and equipment	-	-	-	-	-	120,822	120,822
Other Islamic assets	260,655	49,390	-	-	-	39,016	349,061
<b>Total assets</b>	<b>6,827,836</b>	<b>970,017</b>	<b>795,218</b>	<b>5,469,427</b>	<b>7,764,258</b>	<b>817,969</b>	<b>22,644,725</b>
<b>Liabilities and equity</b>							
Islamic customers' deposits	7,294,106	3,015,010	4,340,225	2,554,192	-	-	17,203,533
Due to banks and other financial institutions	48,040	1,028,273	462,446	1,109,963	-	-	2,648,722
Other liabilities	307,622	38,000	-	-	-	-	345,622
Equity	-	-	-	-	-	2,446,848	2,446,848
<b>Total liabilities and equity</b>	<b>7,649,768</b>	<b>4,081,283</b>	<b>4,802,671</b>	<b>3,664,155</b>	<b>-</b>	<b>2,446,848</b>	<b>22,644,725</b>

Notes to the financial statements  
for the year ended 31 December 2018 (continued)

6. Financial risk management (continued)

6.4 Liquidity risk management (continued)

Maturity profile:

The maturity profile of the assets and liabilities at 31 December 2017 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

Assets	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Undated AED'000	Total AED'000
Cash and balances with central bank	1,378,410	-	-	-	-	-	1,378,410
Due from banks and other financial institutions	137,450	99,729	254,172	110,153	-	-	601,504
Islamic financing and investing assets, net	3,162,745	1,021,195	542,526	3,831,403	6,601,003	-	15,158,872
Islamic investments securities at fair value	-	-	103,357	437,576	1,371,321	-	1,912,254
Investment properties	-	-	-	-	-	580,448	580,448
Property and equipment	-	-	-	-	-	136,244	136,244
Other Islamic assets	191,913	38,205	-	-	-	29,804	259,922
<b>Total assets</b>	<b>4,870,518</b>	<b>1,159,129</b>	<b>900,055</b>	<b>4,379,132</b>	<b>7,972,324</b>	<b>746,496</b>	<b>20,027,654</b>
<b>Liabilities and equity</b>							
Islamic customers' deposits	7,100,827	3,437,059	3,719,993	66,000	-	-	14,323,879
Due to banks and other financial institutions	1,283,461	301,329	859,762	918,150	-	-	3,362,702
Other liabilities	201,269	29,346	-	-	-	-	230,615
Equity	-	-	-	-	-	2,110,458	2,110,458
<b>Total liabilities and equity</b>	<b>8,585,557</b>	<b>3,767,734</b>	<b>4,579,755</b>	<b>984,150</b>	<b>-</b>	<b>2,110,458</b>	<b>20,027,654</b>

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.4 Liquidity risk (continued)**

During the year, the key measure used by the Bank for managing liquidity risk is the ratio prescribed by Central Bank. For this purpose, only high quality liquid assets were considered, which include cash and cash equivalents, Murabaha with Central Bank and debt securities (Sukuk) with 0% risk weight with a liquid market. Denominator comprise of total liabilities excluding provisions from total liabilities. This prescribed ratio was more stringent and comprehensive in managing the Banks liquidity positions. The liquidity ratio at the reporting dates were as follows:

	2018	2017
At 31 December	17%	12%

**6.5 Operational risks**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

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

The Bank has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk and Compliance Committee identifies and manages operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

**6.6 Capital management**

In February 2017, the Central Bank of the UAE adopted 'Basel III' and published enhanced regulatory capital requirements rules vide notifications 52 and 60/2017. In addition minimum capital requirements, Basel III introduces capital conservation (CCB) and countercyclical buffers (CCyB) to induce banking organizations to hold capital in excess of regulatory minimums.

After adoption of Basel III, the regulatory capital is computed under the following items:

- (i) Tier 1 capital, which is composed of;
  - a - Common equity tier 1 (CET 1) - comprise of share capital, statutory reserves, retained earnings and accumulated other comprehensive income reserves,
  - b - Additional tier 1 (AT 1)- comprise of any instrument which is not included in CET1.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.6 Capital management (continued)**

- (ii) Tier 2 capital, which includes general provisions (after implementation of IFRS - 9, the ECL classified that is classified under stage 1 and 2).

In addition to above, all banks are required to maintain a capital conservation buffer (CCB) to encourage the banks to hold capital over and above the minimum requirements.

As per the notification of Central Bank of UAE, banks are required to maintain CCB in a transitional arrangements commencing from January 2017 through January 2019 i.e. over a period of 3 years.

Minimum capital required under each of the above items including CCB is as below;

<b>Capital element</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Minimum common equity tier 1 (CET 1) ratio	7%	7%	7%
Minimum Tier I capital ratio	8.5%	8.5%	8.5%
Minimum capital adequacy ratio	10.5%	10.5%	10.5%
Capital conservation buffer (CCB)	1.25%	1.875%	2.5%

The Bank's assets are risk weighted as to their relative credit, market, and operational risk. Credit risk and market risk includes both on and off-balance sheet risks. Credit risk is defined as the risk of default on a debt that may arise from a customer failing to make required payments. Such risk includes lost of principal and profit, disruption to cash flows, and increased collection costs. 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, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

For Central Bank reporting purposes, the Bank is currently following the standardised measurement approach for credit, market and operational risk, as per Pillar 1 of Basel II.

The Bank's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Bank has followed a conservative dividend policy to increase capital from internal resources to meet future growth.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.



**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.6 Capital management (continued)**

The Bank is required to report capital resources and risk-weighted assets under the Basel III Pillar 1 framework, as shown in the following table:

	2018 AED'000	2017 AED'000
<b>Tier 1 capital</b>		
Share capital	2,100,000	1,680,323
Reserves	345,567	495,341
	<u>2,445,567</u>	<u>2,175,664</u>
<b>Tier 2 capital</b>		
General provision and fair value reserve	179,785	104,167
	<u>179,785</u>	<u>104,167</u>
<b>Total regulatory capital</b>	<u>2,625,352</u>	<u>2,279,831</u>
<b>Risk weighted assets</b>		
Credit risk	14,382,738	13,561,329
Market risk	158,760	96,842
Operation risk	1,011,148	932,864
	<u>15,552,646</u>	<u>14,591,035</u>
	<u>15,552,646</u>	<u>14,591,035</u>
Capital adequacy ratio on regulatory capital	<u>16.88%</u>	<u>15.62%</u>
Capital adequacy ratio on Tier 1 capital	<u>15.72%</u>	<u>14.91%</u>

**Capital allocation**

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance and Risk Groups, and is subject to review by the Bank's Assets and Liabilities Committee (ALCO) as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**6. Financial risk management (continued)**

**6.6 Capital management (continued)**

**Capital allocation (continued)**

During the year, the Board of Directors of the Bank authorised the increase in the Bank's issued share capital from AED 1,680,322,500 to AED 2,100,000,000 by way of a rights issue of 419,677,500 shares at an issue price of AED 1 per new share, reflecting the nominal value of AED 1 per new share. The Bank completed the process of issuing 419,677,500 shares for AED 419,677,500.

**7. Classification of financial assets and liabilities**

- (a) The table below sets out the Bank's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December:

	At fair value AED'000	Amortised cost AED'000	Total AED'000
<b>2018</b>			
<b>Financial assets:</b>			
Cash and balances with the central banks	-	2,558,366	2,558,366
Due from banks and other financial institutions	-	761,711	761,711
Islamic financing and investing assets	-	16,304,026	16,304,026
Islamic investments securities at fair value	1,892,608	-	1,892,608
Other Islamic assets	-	144,337	144,337
<b>Total</b>	<b>1,892,608</b>	<b>19,768,440</b>	<b>21,661,048</b>
<b>Financial liabilities:</b>			
Islamic customers' deposits	-	17,203,533	17,203,533
Due to banks and other financial institutions	-	2,648,722	2,648,722
Other Islamic liabilities	1,209	181,189	182,398
<b>Total</b>	<b>1,209</b>	<b>20,033,444</b>	<b>20,034,653</b>
<b>2017</b>			
<b>Financial assets:</b>			
Cash and balances with the central banks	-	1,378,410	1,378,410
Due from banks and other financial institutions	-	601,504	601,504
Islamic financing and investing assets	-	15,158,872	15,158,872
Islamic investments securities at fair value	1,912,254	-	1,912,254
Other Islamic assets	2,218	144,474	146,692
<b>Total</b>	<b>1,914,472</b>	<b>17,283,260</b>	<b>19,197,732</b>
<b>Financial liabilities:</b>			
Islamic customers' deposits	-	14,323,879	14,323,879
Due to banks and other financial institutions	-	3,362,702	3,362,702
Other Islamic liabilities	-	164,944	164,944
<b>Total</b>	<b>-</b>	<b>17,851,525</b>	<b>17,851,525</b>

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**8. Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

*Valuation techniques and assumptions applied for the purposes of measuring fair value*

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding Islamic derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of Islamic derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency Waad contracts are measured using quoted forward exchange rates and yield curves derived from quoted profit rates matching maturities of the contracts. Profit rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted profit rates.

*Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**8. Fair value measurement (continued)**

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<b>At 31 December 2018</b>				
<b>Financial assets</b>				
Islamic investments securities at FVTPL	79,380	-	120,750	200,130
Islamic investments securities at FVTOCI	1,658,050	-	34,428	1,692,478
	<u>1,737,430</u>	<u>-</u>	<u>155,178</u>	<u>1,892,608</u>
<b>Financial liabilities at FVTPL</b>				
Negative fair value of Islamic derivative financial instruments	1,209	-	-	1,209
	<u>1,209</u>	<u>-</u>	<u>-</u>	<u>1,209</u>
<b>At 31 December 2017</b>				
<b>Financial assets</b>				
Islamic investments securities at FVTOCI	1,752,934	-	159,320	1,912,254
Positive fair value of Islamic derivative financial instruments	2,218	-	-	2,218
	<u>1,755,152</u>	<u>-</u>	<u>159,320</u>	<u>1,914,472</u>

There were no transfers between level 1 and 2 during the year.

Below is reconciliation of Level 3 fair value measurement of financial assets:

	2018 AED'000	2017 AED'000
Balance at 1 January	159,320	139,320
Purchases during the year	20,750	20,000
Fair valuation loss in other comprehensive income	(24,892)	-
<b>Total</b>	<u>155,178</u>	<u>159,320</u>

**The effect of unobservable input on fair value measurement**

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used by  $\pm 10\%$  to reasonably possible alternative assumptions would have the following effects.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**8. Fair value measurement (continued)**

**The effect of unobservable input on fair value measurement (continued)**

	Effect on profit or loss		Effect on OCI	
	Favorable AED'000	Unfavorable AED'000	Favorable AED'000	Unfavorable AED'000
31 December 2018	12,075	(12,075)	3,443	(3,443)
31 December 2017	-	-	15,932	(15,932)

- In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to its fair value.
- In respect of Islamic investments securities, management has used the quoted price when available to assess fair value or used a present value calculation (PVC) based on market observable inputs.
- Islamic financing and investing assets are fair valued based on PVC which takes into account original underlying cash financing credit grading and expected prepayments. These features are used to estimate the present value of the expected cash flows and using risk-adjusted rates. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted rate, and different assumptions and inputs would yield different results.
- Fair values of deposits from banks and customers are estimated using the PVC methodology, applying the applicable rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is considered to be the amount payable at the reporting date.

**9. Cash and balances with the Central Bank**

- (a) The analysis of the Bank's cash and balances with the Central Bank as at 31 December 2018 and 2017 is as follows:

	2018 AED'000	2017 AED'000
Cash on hand	87,443	84,628
Balances with the Central Bank:		
Current accounts	61,691	104,729
Reserve requirements with the Central Bank (note 9 (b))	609,232	544,053
International murabahat with the Central Bank	1,800,000	645,000
<b>Total</b>	<b>2,558,366</b>	<b>1,378,410</b>

The cash and balances with the Central Bank as at 31 December 2018 and 2017 were held within the U.A.E.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**9. Cash and balances with the Central Bank (continued)**

- (b) The reserve requirements are kept with the Central Bank in the respective local currency and US Dollar. These reserves are not available for use in the Bank's day to day operations, and cannot be withdrawn without the approval of the Central Bank. The level of reserve required changes every month in accordance with the requirements of the respective Central Banks' directives. However, as per notice 4310/2008, the Central Bank has allowed banks to finance up to 100% of their AED and US\$ reserve requirement limit. As at 31 December 2018, the statutory reserve with the Central Bank amounted to AED 609 million (31 December 2017: AED 544 million).

**10. Due from banks and other financial institutions**

- (a) The analysis of the Bank's due from banks and financial institutions as at 31 December 2018 and 2017 is as follows:

	<b>2018</b> <b>AED'000</b>	2017 AED'000
Current accounts	<b>14,513</b>	36,799
Islamic deposits with banks and financial institutions	<b>747,638</b>	564,705
	<b>762,151</b>	601,504
Less: Impairment loss allowance	<b>(440)</b>	-
<b>Total</b>	<b>761,711</b>	601,504

- (b) The geographical analysis of the due from banks and financial institutions as at 31 December 2018 and 2017 is as follows:

	<b>2018</b> <b>AED'000</b>	2017 AED'000
Within the U.A.E.	<b>630,276</b>	441,776
Outside the U.A.E.	<b>131,435</b>	159,728
<b>Total</b>	<b>761,711</b>	601,504

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**11. Islamic financing and investing assets, net**

(a) The analysis of the Bank's Islamic financing and investing assets, net, as at 31 December 2018 and 2017 is as follows:

	2018 AED'000	2017 AED'000
<b>Islamic financing assets</b>		
Vehicles murabahat	151,894	201,979
Commodities murabahat	6,853,468	6,186,260
<b>Total murabahat</b>	<u>7,005,362</u>	<u>6,388,239</u>
Ijarahs	9,267,637	8,375,151
Istisna'a	35,826	37,741
Islamic credit cards	39,400	38,762
	<u>16,348,225</u>	<u>14,839,893</u>
Deferred income	(990,670)	(968,537)
<b>Total Islamic financing assets</b>	<u>15,357,555</u>	<u>13,871,356</u>
<b>Islamic investing Assets</b>		
Mudaraba	932,807	1,092,562
Wakalat	751,706	742,570
<b>Total Islamic investing assets</b>	<u>1,684,513</u>	<u>1,835,132</u>
<b>Total Islamic financing and investing assets</b>	<u>17,042,068</u>	<u>15,706,488</u>
Less: Impairment loss allowance (Note 27)	(738,042)	(547,616)
<b>Total Islamic financing and investing assets, net</b>	<u>16,304,026</u>	<u>15,158,872</u>

(b) The Bank, 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 savings and investment deposits and equity. The estimated value of collaterals for Islamic financing and investing assets other than retail assets which are mainly asset based financing, is as follows:

	2018 AED'000	2017 AED'000
Property and mortgages	6,374,829	6,292,923
Deposits and equities	2,896,733	2,304,382

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**11. Islamic financing and investing assets, net (continued)**

(c) Analysis of Islamic financing and investing assets, net by industry group and geography as at 31 December 2018 and 2017 are as follows:

	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
<b>2018</b>			
<b>Economic sector</b>			
Government	526,085	311,844	837,929
Manufacturing and services	4,228,629	34,886	4,263,515
Trade	2,240,133	16,511	2,256,644
Real estate	5,912,613	51,740	5,964,353
Consumer home finance	1,892,315	-	1,892,315
Consumer financing	1,827,312	-	1,827,312
	<u>16,627,087</u>	<u>414,981</u>	<u>17,042,068</u>
Provision for impairment (Note 11(a))			<u>(738,042)</u>
<b>Total</b>			<u><u>16,304,026</u></u>
<b>2017</b>			
<b>Economic sector</b>			
Government	358,332	274,279	632,611
Manufacturing and services	4,753,375	42,535	4,795,910
Trade	2,149,263	-	2,149,263
Real estate	4,348,384	97,573	4,445,957
Consumer home finance	1,884,896	-	1,884,896
Consumer financing	1,797,851	-	1,797,851
	<u>15,292,101</u>	<u>414,387</u>	<u>15,706,488</u>
Provision for impairment (Note 11(a))			<u>(547,616)</u>
<b>Total</b>			<u><u>15,158,872</u></u>

**12. Islamic investments securities at fair value**

	2018 AED'000	2017 AED'000
Islamic investments securities measured at FVTPL	200,130	-
Islamic investments securities measured at FVTOCI	1,692,478	1,912,254
	<u>1,892,608</u>	<u>1,912,254</u>



**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**12. Islamic investments securities at fair value (continued)**

- (a) The geographical analysis of the Islamic investments securities at fair value as at 31 December 2018 and 2017 is as follows:

	Within the U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the World AED'000	Total AED'000
<b>2018</b>				
<b>At FVTPL</b>				
Quoted equity instruments	79,380	-	-	79,380
Unquoted equity instruments and Islamic investment funds	120,750	-	-	120,750
	<u>200,130</u>	<u>-</u>	<u>-</u>	<u>200,130</u>
<b>At FVTOCI</b>				
Quoted sukuk	830,708	792,534	34,808	1,658,050
Unquoted sukuk	30,000	-	4,428	34,428
	<u>860,708</u>	<u>792,534</u>	<u>39,236</u>	<u>1,692,478</u>
<b>Total</b>	<u><u>1,060,838</u></u>	<u><u>792,534</u></u>	<u><u>39,236</u></u>	<u><u>1,892,608</u></u>
<b>2017</b>				
<b>At FVTOCI</b>				
Quoted equity instruments	91,620	-	-	91,620
Unquoted Islamic equity instruments and investment funds	100,000	-	-	100,000
Quoted sukuk	918,657	742,657	-	1,661,314
Unquoted sukuk	30,000	-	29,320	59,320
	<u>1,140,277</u>	<u>742,657</u>	<u>29,320</u>	<u>1,912,254</u>
<b>Total</b>	<u><u>1,140,277</u></u>	<u><u>742,657</u></u>	<u><u>29,320</u></u>	<u><u>1,912,254</u></u>

- (b) Analysis of Islamic investments securities at fair value by industry group as at 31 December 2018 and 2017 is as follows:

	2018 AED'000	2017 AED'000
Government	1,258,093	1,235,964
Manufacturing and services	118,010	50,000
Real estate	129,380	141,620
Financial institutions	387,125	484,670
<b>Total</b>	<u><u>1,892,608</u></u>	<u><u>1,912,254</u></u>

- (c) During the year ended 31 December 2018, the Bank recognized fair value loss on Islamic investments securities at FVTOCI of AED 45 million in the investment fair value reserve (31 December 2017: fair value loss AED 24 million).
- (d) Included in Islamic investments securities at FVTOCI is an amount of AED 803 million (31 December 2017: AED 327 million), pledged under collateralized Murabaha with financial institutions.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**13. Investment properties**

(a) Movement in investment properties during the years ended 31 December 2018 and 2017 is as follows:

	<b>Properties under construction AED'000</b>	<b>Other real estate AED'000</b>	<b>Total AED'000</b>
<b>2018</b>			
<b>Balance at 1 January 2018</b>	55,970	524,478	580,448
Additions during the year	43,078	10	43,088
Transfer from property and equipment	31,000	-	31,000
Increase/(decrease) in fair value during the year	15,595	(12,000)	3,595
<b>Balance at 31 December 2018</b>	<u>145,643</u>	<u>512,488</u>	<u>658,131</u>
<b>2017</b>			
Balance at 1 January 2017	27,598	294,800	322,398
Additions during the year	28,372	224,043	252,415
Increase in fair value during the year	-	5,635	5,635
Balance at 31 December 2017	<u>55,970</u>	<u>524,478</u>	<u>580,448</u>

(b) Details of the Bank's investment properties and information about the fair value hierarchy as at 31 December 2018 and 31 December 2017 are as follows:

	<b>Level 1 AED'000</b>	<b>Level 2 AED'000</b>	<b>Level 3 AED'000</b>	<b>Fair value AED'000</b>
<b>31 December 2018</b>	-	-	658,131	658,131
31 December 2017	-	-	580,448	580,448

All of the Bank's investment properties are held under free hold interest and located in the U.A.E.

(c) The valuations were carried out by professional valuers not related to the Bank who held recognised and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**14. Property and equipment**

	Leasehold improvements AED'000	Furniture, fittings and equipment AED'000	Vehicles AED'000	Computer equipment and software AED'000	Capital work in progress AED'000	Land and buildings AED'000	Total AED'000
<b>Cost</b>							
At 1 January 2017	57,523	28,343	1,175	64,167	5,871	99,315	256,394
Additions	142	5,338	-	1,639	5,330	-	12,449
Transfers	1,745	2,024	-	1,050	(4,819)	-	-
Disposals	(92)	(21)	-	(11)	-	-	(124)
At 31 December 2017	59,318	35,684	1,175	66,845	6,382	99,315	268,719
Additions	193	409	471	1,822	29,575	-	32,470
Transfers	563	1,078	-	7,235	(8,876)	-	-
Transfer to investment property	-	-	-	-	-	(31,000)	(31,000)
Disposals	-	-	(400)	-	-	-	(400)
Write off	(2,963)	-	-	-	-	-	(2,963)
<b>At 31 December 2018</b>	<b>57,111</b>	<b>37,171</b>	<b>1,246</b>	<b>75,902</b>	<b>27,081</b>	<b>68,315</b>	<b>266,826</b>
<b>Accumulated depreciation</b>							
At 1 January 2017	42,365	21,466	829	48,377	-	2,720	115,757
Charge for year	3,718	4,455	143	7,033	-	1,493	16,842
Disposals	(92)	(21)	-	(11)	-	-	(124)
At 31 December 2017	45,991	25,900	972	55,399	-	4,213	132,475
Charge for year	3,270	3,541	194	7,798	-	1,493	16,296
Disposals	-	-	(349)	-	-	-	(349)
Write off	(2,418)	-	-	-	-	-	(2,418)
<b>At 31 December 2018</b>	<b>46,843</b>	<b>29,441</b>	<b>817</b>	<b>63,197</b>	<b>-</b>	<b>5,706</b>	<b>146,004</b>
<b>Net book value</b>							
<b>At 31 December 2018</b>	<b>10,268</b>	<b>7,730</b>	<b>429</b>	<b>12,705</b>	<b>27,081</b>	<b>62,609</b>	<b>120,822</b>
At 31 December 2017	13,327	9,784	203	11,446	6,382	95,102	136,244

\* Capital work in progress comprises cost incurred on IT projects.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**15. Other Islamic assets**

	2018 AED'000	2017 AED'000
Accrued income on Islamic financing and investing assets	110,621	74,937
Acceptances (Note 18)	102,678	17,319
Assets acquired in settlement of Islamic financing and investing assets*	39,016	29,804
Accrued income on Islamic investments securities	21,940	22,376
Prepaid expenses	18,217	28,168
Staff advances (Soft finance)	12,212	13,598
Foreign currency forward contracts	-	2,218
Other	72,236	74,487
	<u>376,920</u>	<u>262,907</u>
Less: Impairment loss allowance	(27,859)	(2,985)
	<u>349,061</u>	<u>259,922</u>

(\*) During the year the Bank charged an impairment allowance of AED 3,854 million against Assets acquired in settlement of Islamic financing and investing assets.

**16. Islamic customers' deposits**

(a) The analysis of the Islamic customers' deposits as at 31 December 2018 and 2017 is as follows:

	2018 AED'000	2017 AED'000
Current accounts	2,686,661	2,592,979
<i>Mudarba deposits:</i>		
Savings accounts	202,408	207,703
Term deposits	60,209	68,184
	<u>2,949,278</u>	<u>2,868,866</u>
Wakala deposits	13,998,041	11,249,371
Escrow accounts	191,404	93,933
Margin accounts	64,810	111,709
	<u>17,203,533</u>	<u>14,323,879</u>

All Islamic customers' deposits as at 31 December 2018 and 2017 were held within the U.A.E.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**17. Due to banks and other financial institutions**

(a) The analysis of the due to banks and other financial institutions as at 31 December 2018 and 2017 is as following:

	<b>2018</b> <b>AED'000</b>	2017 AED'000
Current accounts	<b>29,678</b>	30,174
Investment deposits	<b>2,619,044</b>	3,332,528
<b>Total</b>	<b>2,648,722</b>	3,362,702

(b) The geographical analysis of the Bank's due to banks and other financial institutions as at 31 December 2018 and 2017 is as follows:

	<b>2018</b> <b>AED'000</b>	2017 AED'000
Within the U.A.E.	<b>1,948,679</b>	2,616,097
Outside the U.A.E.	<b>700,043</b>	746,605
<b>Total</b>	<b>2,648,722</b>	3,362,702

**18. Other liabilities**

	<b>2018</b> <b>AED'000</b>	2017 AED'000
Accrued profit on Islamic customers' deposits and placements by banks	<b>152,519</b>	117,733
Provisions for staff salaries and benefits	<b>19,690</b>	16,550
Managers' cheques	<b>26,701</b>	45,312
Acceptances (Note 15)	<b>102,678</b>	17,319
Impairment loss allowance	<b>15,536</b>	-
Other	<b>28,498</b>	33,701
	<b>345,622</b>	230,615

**19. Share capital**

	<b>2018</b> <b>AED'000</b>	2017 AED'000
<b>Issued and fully paid:</b>		
2,100,000,000 (31 December 2017: 1,680,322,500) shares of AED 1 each	<b>2,100,000</b>	1,680,323

During the year, the Board of Directors of the Bank authorised the increase in the Bank's issued share capital from AED 1,680,322,500 to AED 2,100,000,000 by way of a rights issue of 419,677,500 shares at an issue price of AED 1 per new share, reflecting the nominal value of AED 1 per new share. The Bank completed the process of issuing 419,677,500 shares for AED 419,677,500.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**20. Statutory reserve**

The U.A.E. Commercial Companies Law 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.

**21. Dividends paid**

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

At the Annual General Meeting of the shareholders held on 21 March 2018, the shareholders approved cash dividend in respect of the year ended 31 December 2017 at 3.5% (31 December 2016: 3.5% stock dividend) of the share capital amounting to AED 58.8 million (31 December 2016: AED 56.8 million). Further AED 2.5 million as Directors' remuneration was also approved.

**22. Income from Islamic financing and investing assets**

	2018 AED'000	2017 AED'000
Income from Ijarah	444,811	337,337
Income from Murabaha	324,263	271,377
Income from Mudaraba	37,803	39,953
Income from Wakala	38,426	31,401
Income from Istisna financing	2,019	1,135
Income from Mushraka	-	427
	<u>847,322</u>	<u>681,630</u>

**23. Income from Islamic investments securities at fair value**

	2018 AED'000	2017 AED'000
Dividend income from Islamic investments securities at FVTPL	9,002	-
Unrealized loss on revaluation of Islamic investments securities at	(12,240)	-
Income from Islamic investments securities at FVTOCI	75,196	79,048
Realized (loss)/gain on disposal of Islamic investments securities at FVTOCI	(2,133)	7,541
<b>Total</b>	<u>69,825</u>	<u>86,589</u>

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**24. Fees, commission and other income**

	<b>2018</b> <b>AED'000</b>	2017 AED'000
Processing and evaluation fees	37,692	60,534
Arrangement fee	10,331	12,081
Foreign exchange income	6,761	13,664
Trade related commission and fees	6,115	5,762
Investment agent fees	1,304	8,294
Deposit and credit card fees	4,040	7,242
Income from investment properties	39,881	28,574
Other	18,800	12,933
<b>Total</b>	<b>124,924</b>	<b>149,084</b>

**25. Staff costs**

	<b>2018</b> <b>AED'000</b>	2017 AED'000
Salaries and allowances	119,560	113,480
Other staff related cost	68,255	54,921
	<b>187,815</b>	<b>168,401</b>

**26. General and administrative expenses**

	<b>2018</b> <b>AED'000</b>	2017 AED'000
Rental expenses	13,136	13,394
Communication expenses	2,576	3,904
Software license	1,283	2,321
Premises and equipment maintenance costs	6,506	5,104
Legal and professional fees	3,051	2,245
Security services including cash in transit services	3,012	3,224
Marketing, designing and product development expenses	3,079	3,117
Consultancy expenses	2,128	1,144
Printing and stationary	2,077	1,403
Other	19,409	16,189
	<b>56,257</b>	<b>52,045</b>

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**27. Impairment allowance**

27.1 The movement in impairment allowance by financial asset category is as follows:

	Opening balance restated AED'000	Net charge during the period AED'000	Other movement during the period AED'000	Closing balance AED'000
Due from banks and financial institutions	500	(60)	-	440
Islamic financing and investing assets (Note 11)	646,625	94,191	(2,774)	738,042
Islamic investments securities at FVTOCI*	50,932	1,195	-	52,127
Other Islamic financial assets	15,468	12,391	-	27,859
Financial commitments and financial guarantees	10,637	4,899	-	15,536
<b>Total</b>	<b>724,162</b>	<b>112,616</b>	<b>(2,774)</b>	<b>834,004</b>

(\*) Impairment allowance is recognised under “Revaluation reserve of investments designated at FVTOCI”.

27.2 Allocation of impairment allowance as of 31 December 2018 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Due from banks and financial institutions	403	37	-	440
Islamic financing and investing assets	60,896	144,885	532,261	738,042
Islamic investments securities at FVTOCI	2,049	-	50,078	52,127
Other Islamic financial assets	-	1	27,858	27,859
Financial commitments and financial guarantees	7,994	-	7,542	15,536
<b>Total</b>	<b>71,342</b>	<b>144,923</b>	<b>617,739</b>	<b>834,004</b>

The impairment allowance as per IFRS 9 is in excess of the provision under UAE Central Bank requirements.



**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**28. Earnings per share**

Earnings per share are computed by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2018	2017
<b><i>Earnings per share</i></b>		
Profit for the year ended (AED'000)	170,034	132,614
Directors' remuneration (AED'000)	(2,500)	(2,500)
Profit for the year after Directors' remuneration	<u>167,534</u>	<u>130,114</u>
Number of shares outstanding at 1 January (in thousands)	1,680,323	1,623,500
Effect of bonus shares issued (in thousands)		
Bonus shares issued in 2017	-	56,823
Effect of right issue of shares (in thousands)		
New shares issued (weighted average)	<u>50,591</u>	-
Weighted average number of shares outstanding at 31 December (in thousands)	<u>1,730,914</u>	<u>1,680,323</u>
<b>Earnings per share (AED)</b>	<u>0.097</u>	<u>0.077</u>

As at 31 December 2018 and 2017, there were no potential dilutive shares outstanding.

**29. Cash and cash equivalents**

	2018 AED'000	2017 AED'000
Cash and balances with the Central Banks (Note 9)	2,558,366	1,378,410
Due from banks and other financial institutions (original maturity less than three months)	<u>298,993</u>	<u>137,401</u>
	2,857,359	1,515,811
Less: Statutory deposit with Central Banks (Note 9)	<u>(609,232)</u>	<u>(544,053)</u>
	<u>2,248,127</u>	<u>971,758</u>

**30. Related parties transactions**

- (a) Certain "related parties" (such as directors, key management personnel and major shareholders of the Bank and companies of which they are principal owners) are customers of the Bank in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**30. Related parties transactions (continued)**

- (b) The Bank is controlled by Ajman Government who own 26% (2017: 26%) of the issued and paid capital.

**Transactions**

Transactions with related parties are shown below:

	2018			2017		
	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000
Depositors' share of profit	75,815	1,303	77,118	64,613	2,114	66,727
Income from Islamic financing and investing assets	46,205	4,952	51,157	61,396	4,373	65,769

**Balances**

Balances with related parties at the reporting date are shown below:

	2018			2017		
	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000
Islamic financing and investing assets	1,944,144	130,116	2,074,260	1,840,462	143,033	1,983,495
Customers' deposits	3,122,996	109,023	3,232,019	2,740,541	184,260	2,924,801

**Compensation of management personnel**

Key management compensation is as shown below:

	2018 AED'000	2017 AED'000
Short term employment benefits	19,754	19,162
Terminal benefits	1,368	1,039
Total	21,122	20,201

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**31. Contingencies and commitments**

*Capital commitments*

At 31 December 2018, the Bank had outstanding capital commitments of AED 46 million (31 December 2017: AED 70 million), which will be funded within the next twelve months.

*Credit related commitments and contingencies*

Credit related commitments include commitments to extend credit which are designed to meet the requirements of the Bank's customers.

The Bank had the following credit related commitments and contingent liabilities:

	2018 AED'000	2017 AED'000
Commitments to extend credit	1,370,517	978,860
Letters of credit	11,630	51,513
Letters of guarantee	445,330	499,446
	<u>1,827,477</u>	<u>1,529,819</u>

**32. Segment analysis**

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Executive Committee (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance.

The Bank has three main business segments:

- Consumer banking - incorporating private customer current accounts, savings accounts, deposits, credit and debit cards, personal finance and house mortgage;
- Corporate banking - incorporating transactions with corporate bodies including government and public bodies and comprising of Islamic financing and investing assets, deposits and trade finance transactions; and
- Treasury - incorporating activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the Central Bank of the UAE, none of which constitute a separately reportable segment.

As the Bank's segment operations are all financial with a majority of revenues deriving income from Islamic financing and investing assets and the Executive Committee relies primarily on net income to assess the performance of the segment, the total income and expense for all reportable segments is presented on a net basis.

The Bank's management reporting is based on a measure of operating profit comprising income from Islamic financing and investing assets, impairment charges on Islamic financing and investing assets, net fee and commission income, other income and expenses.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet items.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**32. Segment analysis**

**Segment results of operations**

The segment information provided to the Board for the reportable segments is as follows:

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investments AED'000	Other AED'000	Total AED'000
<b>At 31 December 2018</b>						
Net income from Islamic financing and investing assets	90,835	264,766	(24,171)	20,693	-	352,123
Income from Islamic investments securities at fair value	-	-	73,062	(3,237)	-	69,825
Impairment charges	(20,980)	(87,682)	(2,480)	(1,474)	(3,854)	(116,470)
Fees, commission and other income	20,025	55,494	5,551	41,811	2,043	124,924
Staff cost	(55,132)	(14,964)	(3,611)	(7,079)	(107,029)	(187,815)
General and administrative expenses	(26,101)	(5,313)	(2,216)	(3,498)	(19,129)	(56,257)
Depreciation of property and equipment	-	-	-	-	(16,296)	(16,296)
<b>Operating profit/(loss)</b>	<b>8,647</b>	<b>212,301</b>	<b>46,135</b>	<b>47,216</b>	<b>(144,265)</b>	<b>170,034</b>
<b>Segment assets</b>	<b>4,056,545</b>	<b>12,337,147</b>	<b>3,752,223</b>	<b>1,990,431</b>	<b>508,379</b>	<b>22,644,725</b>
<b>Segment liabilities</b>	<b>3,294,304</b>	<b>13,508,213</b>	<b>1,662,429</b>	<b>1,345,786</b>	<b>387,145</b>	<b>20,197,877</b>

Notes to the financial statements  
for the year ended 31 December 2018 (continued)

32. Segment analysis (continued)

Segment results of operations (continued)

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investments AED'000	Other AED'000	Total AED'000
<b>At 31 December 2017</b>						
Net income from Islamic financing and investing assets	94,145	209,994	12,113	13,774	-	330,026
Income from Islamic investment securities at fair value	-	-	80,204	6,385	-	86,589
Impairment charges	(21,735)	(167,670)	(2,472)	(3,920)	-	(195,797)
Fees, commission and other income	20,423	76,145	12,881	37,713	1,922	149,084
Staff cost	(49,265)	(15,002)	(2,881)	(5,705)	(95,548)	(168,401)
General and administrative expenses	(27,454)	(4,254)	(870)	(190)	(19,277)	(52,045)
Depreciation of property and equipment	-	-	-	-	(16,842)	(16,842)
<b>Operating profit/(loss)</b>	<b>16,114</b>	<b>99,213</b>	<b>98,975</b>	<b>48,057</b>	<b>(129,745)</b>	<b>132,614</b>
<b>Segment assets</b>	<b>4,022,137</b>	<b>11,519,408</b>	<b>2,441,765</b>	<b>1,425,537</b>	<b>618,807</b>	<b>20,027,654</b>
<b>Segment liabilities</b>	<b>2,902,735</b>	<b>12,297,184</b>	<b>1,579,290</b>	<b>864,178</b>	<b>273,809</b>	<b>17,917,196</b>

**Revenue from major products and services**

Revenue from major products and services are disclosed in Notes 22 in the financial statements.

**Information about major customers**

No single customer contributed 10% or more to the Bank's revenue for both years ended 31 December 2018 and 2017.

**Notes to the financial statements  
for the year ended 31 December 2018 (continued)**

**33. Maturity profile of financial liabilities**

	<b>Up to 1 year AED'000</b>	<b>2018 1 - 5 years AED'000</b>	<b>Total AED'000</b>
Islamic customers' deposits	14,649,341	2,554,192	17,203,533
Due to banks and other financial institutions	1,538,759	1,109,963	2,648,722
Other liabilities	182,398	-	182,398
	<u>16,370,498</u>	<u>3,664,155</u>	<u>20,034,653</u>
 Commitments and contingent liabilities	 <u>1,116,857</u>	 <u>710,620</u>	 <u>1,827,477</u>
		2017	
	Up to 1 year AED'000	1 - 5 years AED'000	Total AED'000
Islamic customers' deposits	14,257,879	66,000	14,323,879
Due to banks and other financial institutions	2,444,552	918,150	3,362,702
Other liabilities	164,944	-	164,944
	<u>16,867,375</u>	<u>984,150</u>	<u>17,851,525</u>
 Commitments and contingent liabilities	 <u>349,298</u>	 <u>1,180,521</u>	 <u>1,529,819</u>

**34. Special purpose entities**

The Bank consolidated special purpose entities (SPEs) in the financial statements for the year ended 31 December 2017. These SPEs had no operations during the year ended 31 December 2018 and 31 December 2017. The Bank has closed these SPEs during the year and there were no transactions or balances in the current year or comparative year relating to these subsidiaries.

**35. Social contributions**

The social contribution (including donations and charities) made during the year amounted to AED 0.1 million (2017: AED 0.9 million).

**36. Approval of financial statements**

The financial statements were approved by the Board of Directors and authorized for issue on 16 January 2019.