United Arab Bank P.J.S.C.

FINANCIAL STATEMENTS

31 DECEMBER 2018

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Independent auditor's report to the shareholders of United Arab Bank P.J.S.C.

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of United Arab Bank P.J.S.C. (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.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Key audit matters	• Measurement of expected credit losses

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

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 year. 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.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter

Measurement of expected credit losses

IFRS 9 'Financial instruments' became effective from 1 January 2018 and replaced most of the guidance in IAS 39 – 'Financial instruments'. In particular, the incurred loss impairment model under IAS 39 has been replaced with the Expected Credit Losses model ("ECL"). The Bank adopted the final phase of IFRS 9 with respect to impairment of financial assets with effect from 1 January 2018. The adoption of the ECL model under IFRS 9 has resulted in an increase in the impairment provision by AED 330 million which has been recognized as an adjustment to retained earnings at 1 January 2018. On the initial application of IFRS 9 management has evaluated and disclosed the information required by IFRS 7 and IFRS 9.

The Bank applies ECL on all the financial instruments measured at amortised cost, debt instruments measured at fair value through comprehensive income, and financial guarantee contracts including financing commitments.

The Bank exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria.

We performed the following audit procedures to assess the adequacy of the ECL included in the Bank's financial statements for the year ended 31 December 2018:

- We tested the completeness and accuracy of the data used in the calculations of ECL.
- For a sample of exposures, we checked the appropriateness of the Bank's application of the staging criteria.
- We involved our internal specialists to assess the following areas:
  - Conceptual framework used for developing the Bank's impairment policy in the context of its compliance with the requirements of IFRS 9.
  - ECL modelling methodology and calculations used to compute the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for the Bank's classes of financial instruments.
  - Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.
  - For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collateral.
- For the Stage 3 portfolio, the appropriateness of provisioning assumptions were independently assessed for a sample of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognized, based on the

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Independent auditor's report to the shareholders of United Arab Bank P.J.S.C. (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
For defaulted exposures, the Bank exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral. The Bank's impairment policy under IFRS 9 is presented in note 3.14 to the consolidated financial statements. Measurement of ECL is considered as a key audit matter as the Bank applies significant judgments and makes a number of assumptions in the staging criteria applied to the financial instruments as well as in developing ECL models for calculating its impairment provisions.	detailed loan and counterparty information in the credit file. ➢ We assessed the financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9.

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Independent auditor's report to the shareholders of United Arab Bank P.J.S.C. (continued)

Other information

The directors are responsible for the other information. The other information comprises The Directors' Report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of the auditor's report, Chairman's Report, Corporate Governance Report and Financial Highlights, which is expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 Chairman's Report, Corporate Governance Report and Financial Highlights, if we conclude that that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

The directors are 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 the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, 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.

Independent auditor's report to the shareholders of United Arab Bank P.J.S.C. (continued)

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 the directors.
- Conclude on the appropriateness of directors' 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 entities or 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.

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

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

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

Report on other legal and regulatory requirements

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

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

(ii) 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;

(iii) the Bank has maintained proper books of account;

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

(v) note 9 to the financial statements discloses the shares purchased by the Bank during the financial year ended 31 December 2018;

(vi) note 24 to the financial statements discloses material related party transactions and the terms under which they were conducted;

(vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018; and

(viii) note 31 to the financial statements discloses the social contribution 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.

PricewaterhouseCoopers
21 February 2019

Jacques

Jacques E Fakhoury
Registered Auditor Number 379
Place: Dubai, United Arab Emirates

Statement of financial position
At 31 December 2018

	Notes	As at 31 December 2018 AED'000	2017 AED'000
Assets			
Cash and balances with UAE Central Bank	6	**1,890,767**	2,016,628
Due from other banks	7	**520,172**	413,528
Loans and advances	8	**12,759,101**	13,128,347
Investments	9	**3,824,134**	3,413,436
Property, equipment and capital work-in-progress	10	**578,355**	589,960
Other assets	11	**938,488**	1,176,801
Total assets		**20,511,017**	20,738,700
Liabilities and shareholders' equity			
Liabilities			
Due to banks	12	**2,151,448**	1,543,890
Customers' deposits	13	**14,038,959**	15,049,917
Medium term borrowings	14	**954,850**	844,629
Other liabilities	15	**836,300**	1,135,634
Total liabilities		**17,981,557**	18,574,070
Shareholders' equity			
Share capital	16	**2,062,550**	1,375,033
Special reserve	16	**422,116**	414,393
Statutory reserve	16	**504,671**	496,948
General reserve	16	**9,311**	9,311
Revaluation reserve	16	**593**	632
Cumulative changes in fair values		**(42,855)**	22,253
Accumulated losses		**(426,926)**	(153,940)
Net shareholders' equity		**2,529,460**	2,164,630
Total liabilities and shareholders' equity		**20,511,017**	20,738,700

The financial statements were approved by the Board of Directors on 30 January 2019 and signed on its behalf by:

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

Mohamed Bin Abdulla Al Nuaimi
Acting Chief Executive Officer

The attached notes 1 to 31 form part of these financial statements.

Statement of income
For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 AED'000	2017 AED'000
Interest income	17	933,068	842,652
Interest expense	18	(444,841)	(353,211)
Net interest income		488,227	489,441
Net fees and commission income	19	76,297	105,980
Foreign exchange income	20	29,531	39,593
Other operating income	21	53,416	42,074
Total operating income		647,471	677,088
Employee benefit expenses		(218,031)	(215,041)
Depreciation	10	(29,357)	(35,749)
Other operating expenses	22	(80,961)	(119,678)
Total operating expenses		(328,349)	(370,468)
Profit before impairment losses		319,122	306,620
Net impairment losses		(241,895)	(289,277)
Net profit for the year		77,227	17,343
Earnings per share (basic and diluted in AED)	23	0.04	0.01

The attached notes 1 to 31 form part of these financial statements.

Statement of comprehensive income
At 31 December 2018

	Year ended 31 December	
	2018 AED'000	2017 AED'000
Net profit for the year	77,227	17,343
Other comprehensive income		
Items that are or may be reclassified subsequently to the statement of income		
Fair value through other comprehensive income (FVOCI):		
Net changes in fair value of FVOCI investments	(81,406)	-
FVOCI – reclassified to statement of income	(2,085)	-
Available-for-sale investments:		
Net changes in fair value of available for sale investments	-	35,874
Available for sale investments – reclassified to statement of income	-	24,696
	(83,491)	60,570
Total comprehensive (loss) / profit for the year	(6,264)	77,913

United Arab Bank P.J.S.C.

Statement of cash flows
For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 AED'000	2017 AED'000
Operating activities			
Net profit for the year		77,227	17,343
Adjustments for:			
Depreciation	10	29,357	35,749
Loss on write off of property and equipment	10	4,044	5,000
Gain from insurance and sale of property and equipment		(301)	(5,247)
Net impairment losses	8	241,895	289,277
Amortisation of premium paid on investments		33,328	38,575
Net fair value loss on disposal of investments		2,789	8,396
Unrealised gain on investments	9	(40)	(1,466)
Operating profit before changes in operating assets and liabilities		388,299	387,627
Changes in operating assets and liabilities:			
Loans and advances		(124,949)	(327,792)
Balances with UAE Central bank maturing after three months		(66,910)	307,225
Due from other banks maturing after three months		-	125,000
Cash margin held by counterparty banks against borrowings and derivative transactions	6	13,257	2,842
Other assets	11	220,785	(44,771)
Due to banks maturing after three months		386,274	119,379
Customers' deposits	13	(1,020,897)	(488,098)
Other liabilities	15	(338,287)	150,685
Net cash (used in) / generated from operating activities		(542,428)	232,097
Investing activities			
Purchase of property, equipment and capital work-in-progress	10	(21,793)	(47,462)
Proceeds on sale of property and equipment		-	1,325
Proceeds from insurance claims		301	5,000
Purchase of investments		(2,173,433)	(2,168,334)
Proceeds from redemption / sale of investments		1,637,439	2,061,340
Proceeds from closure of subsidiary		10,238	-
Net cash used in investing activities		(547,248)	(148,131)
Financing activities			
Increase in ordinary share capital on rights issue	23	687,517	-
Net proceeds from / (repayment of) medium term borrowings		110,221	(679,376)
Rights issue costs		(2,216)	-
Net cash generated from / (used in) financing activities		795,522	(679,376)
Net change in cash and cash equivalents		(294,154)	(595,410)
Cash and cash equivalents at 1 January		1,036,067	1,631,477
Cash and cash equivalents at 31 December		741,913	1,036,067

Cash and cash equivalents comprise the following statement of financial position amounts with original maturities of three months or less:

	2018	2017
Cash and balances with the UAE Central Bank	1,012,515	1,205,286
Due from other banks	512,203	392,302
Due to banks	(782,805)	(561,521)
	741,913	1,036,067

The attached notes 1 to 31 form part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2018

	Share capital AED'000	*Special reserve AED'000*	*Statutory reserve AED'000*	*General reserve AED'000*	*Revaluation reserve AED'000*	*Changes in fair value AED'000*	*Accumulated losses AED'000*	*Total AED'000*
At 1 January 2017	1,375,033	412,659	495,214	9,311	673	(38,317)	(167,856)	2,086,717
Profit for the year	-	-	-	-	-	-	17,343	17,343
Comprehensive income for the year	-	-	-	-	-	60,570	-	60,570
Total comprehensive income for the year	-	-	-	-	-	60,570	17,343	77,913
Depreciation transfer for land and buildings	-	-	-	-	(41)	-	41	-
Transfer to special reserve	-	1,734	-	-	-	-	(1,734)	-
Transfer to statutory reserve	-	-	1,734	-	-	-	(1,734)	-
At 31 December 2017	**1,375,033**	**414,393**	**496,948**	**9,311**	**632**	**22,253**	**(153,940)**	**2,164,630**
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	-	15,912	(330,119)	(314,207)
Restated balance at 1 January 2018	**1,375,033**	**414,393**	**496,948**	**9,311**	**632**	**38,165**	**(484,059)**	**1,850,423**
Profit for the year	-	-	-	-	-	-	77,227	77,227
Comprehensive loss for the year	-	-	-	-	-	(83,491)	-	(83,491)
Total comprehensive loss for the year	-	-	-	-	-	(83,491)	77,227	(6,264)
Rights issue (Note 23)	687,517	-	-	-	-	-	-	687,517
Rights issue cost	-	-	-	-	-	-	(2,216)	(2,216)
Depreciation transfer for land and buildings	-	-	-	-	(39)	-	39	-
Transfer to special reserve	-	7,723	-	-	-	-	(7,723)	-
Transfer to statutory reserve	-	-	7,723	-	-	-	(7,723)	-
Loss on sale of equity reclassified	-	-	-	-	-	2,471	(2,471)	-
At 31 December 2018	**2,062,550**	**422,116**	**504,671**	**9,311**	**593**	**(42,855)**	**(426,926)**	**2,529,460**

The attached notes 1 to 31 form part of these financial statements.

1 Incorporation and activities

United Arab Bank P.J.S.C. (the "Bank") was incorporated in 1975 as a Private Joint Stock Company in the Emirate of Sharjah. The legal form of the Bank was converted to a public company with limited liability in 1982 by a decree of His Highness The Ruler of Sharjah and has been registered as a Public Joint Stock Company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries out the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries out Islamic banking operations through Islamic banking windows at selected branches.

Investment in subsidiary

On 28 November 2011, Al Sadarah Investment Company was formed as an investment company by the Bank. Al Sadarah Investment Company ("the subsidiary") started its operations from 3 May 2012 when the share capital (100 shares of AED 3,000 each, totalling AED 300,000) was introduced into the subsidiary. The company was incorporated as a fully owned subsidiary of the Bank. The Bank and its subsidiary were together referred to as the "Group". The principal activities of the subsidiary were to make financial investments on its own, invest in commercial projects and provide investment advisory services.

Following internal management review, a decision was made to wind up this subsidiary as the entity was not considered core to the Group's transformation strategy. As a result, the former subsidiary company was wound up in January 2018. There were no operations in this subsidiary during the year and no balances as at 31 December 2018. The current year financial statements comprise the results of the Bank on a standalone basis. The comparative financial statements continues to be on a consolidated basis.

2 Basis of preparation

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws. UAE Federal Law No 2 of 2015 ("Companies Law") is applicable to the Bank, has come into effect on 1 July 2015. The Bank has assessed and evaluated the provisions of the Companies Law and has ensured its compliance.

3 Significant accounting policies

3.1 New and revised International Financial Reporting Standards

3.1.1 Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 1 January 2018

IFRS	Title	Effective for annual periods beginning on or after
IAS 1	Presentation of financial statements (disclosure initiative)	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 10	Consolidated financial statements	1 January 2018
IAS 28	Investments in associates and joint ventures	1 January 2018
IFRS 7	Financial instruments: disclosures*	1 January 2018
IAS 19	Employee benefits*	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IAS 34	Interim financial reporting*	1 January 2018

* *These represent annual improvements issued from the 2012 - 2014 reporting cycle, amending the aforesaid standards.*

Other than IFRS 9 and 7, there is no material impact of the above amendments on the financial statements of the Bank.

There are no other IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning on 1 January 2018 that have had a material impact on the Bank's financial statements.

3 Significant accounting policies (continued)

3.1 New and revised International Financial Reporting Standards (continued)

3.1.1 Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 1 January 2018

IFRS 9 - Financial Instruments

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

The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. These key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification is dependent on the Bank's business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of income. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of income.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income (OCI); and
- The remaining amount of the change in the fair value is presented in profit or loss.

Explanation of how the Bank classifies its financial assets and liabilities are provided in the subsequent sections.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. In addition to the financial assets, the new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. Explanation of how the Bank applies the impairment requirements of IFRS 9 are explained in the subsequent sections.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI
- If a financial asset had low credit risk at the date of initial application of IFRS 9, then the Bank continues to assess whether any increase in credit risk is significant since the initial implementation.
- As permitted by IFRS 9, the Bank elected to continue to apply the hedge accounting requirements under IAS 39.

3 Significant accounting policies (continued)

3.1 New and revised International Financial Reporting Standards (continued)

3.1.2 Standards, amendments and interpretations issued but not yet effective for the Bank's accounting period beginning on 1 January 2018 and not early adopted

IFRS	Title	Effective for annual periods beginning on or after
IFRS 16	Leases Nature of change – Under the standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. Impact – As at the reporting date, the Bank has non-cancellable operating lease commitments of AED 15.2m. Of these commitments, approximately AED1.1m relate to short-term and low-value leases which will be recognised on a straight-line basis as expense in statement of income. For the remaining lease commitments, the Bank expects to recognise right-of-use assets of approximately AED32.8m on 1 January 2019 and lease liabilities of AED25.3m (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). The Bank expects that profit after tax will decrease by approximately by AED4.4m for 2019 as a result of adopting the new rules. Operating cash flows will increase and financing cash flows decrease by approximately AED6.1m as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities. The Bank's activities as a lessor are not material and hence the Bank does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year. Date of adoption – The Bank will apply the standard from its mandatory adoption date of 1 January 2019. The Bank intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses)	1 January 2019

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Bank's financial year beginning on 1 January 2018 that would be expected to have a material impact on the financial information of the Bank.

3.2 Basis of measurement

The Bank's financial statements are prepared under the historical cost convention except for the following:

- derivative financial instruments are measured at fair value:
- financial assets at FVTPL and FVOCI (applicable from 1 January 2018) are measured at fair value;
- available-for-sale financial assets (applicable before 1 January 2018) are measured at fair value;
- investment properties are measured at fair value.

3 Significant accounting policies (continued)

3.3 Functional and presentation currency

The Bank's financial statements have been presented in UAE Dirhams which is the presentation currency of the Bank and also the functional currency of the Bank (and its subsidiary) and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

3.4 Basis of consolidation

The financial statements of the Bank for the year ended 31 December 2018 has been prepared on a standalone basis since its former subsidiary was wound up in January 2018. The prior year comparative figures represent consolidated financial information and comprise the financial statements of the Bank and its subsidiary as at 31 December 2017 (collectively referred to as the "Group"). The following subsidiary had been consolidated for the year ended 31 December 2017:

Name	*Legal Status*	*Beneficial ownership*	*Country of incorporation*	*Principal activities*
Al Sadarah Investment Company	Limited Liability company	100%	Sharjah, UAE	Investments and investment advisory services

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee.

Subsidiaries are fully consolidated from the date of acquisition or establishment, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Where necessary, the accounting policies of subsidiaries are aligned to ensure consistency with the policies adopted by the Group. All intra-group balances, transactions, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

3.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument for another entity. All assets and liabilities in the statement of financial position are financial instruments except property and equipment, capital work-in-progress, prepayments, provision for employee service benefits and shareholders' equity.

3.5.1 Classification

Policies applicable from 1 January 2018

On initial recognition a financial asset is classified as measured at:

- Amortised cost;
- Fair value through comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL)

The classification requirements for debt and equity instruments are described below.

<u>Debt instruments</u>

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

The classification depends on the Bank's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

3 Significant accounting policies (continued)

3.5 Financial instruments (continued)

3.5.1 Classification (continued)

Policies applicable from 1 January 2018 (continued)

Debt instruments (continued)

Based on these factors, the Bank classifies its debt instruments into one of three measurement categories:

- Amortised Cost - Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as explained in note 3.5.14. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- Fair value through comprehensive income (FVOCI) – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest Income' using the effective interest rate method.

- Fair value through profit or loss (FVTPL) – Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement in the period in which it arises.

The business model reflects how the Bank manages its assets in order to generate cash flows that is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVTPL.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI' test). In making this assessment, the Bank considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangements, the related financial asset is classified and measured at fair value through profit or loss.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective: that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Investment in equity instruments that are not held for trading are measured at FVOCI. In such cases amounts presented in comprehensive income are not subsequently transferred to profit or loss upon de-recognition. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

All other financial assets are classified and measured at FVTPL.

3 Significant accounting policies (continued)

3.5 Financial instruments (continued)

3.5.1 Classification (continued)

The following summarises the key changes for the Bank:

- The available for sale (AFS) financial asset categories were removed.
- A new asset category measured at FVOCI was introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The Bank's AFS debt instruments were classified in this category.
- A new asset category for non-traded equity investments measured at FVOCI was introduced. The Bank's AFS equity instruments were classified in this category.

Policies applicable before 1 January 2018

The Bank classified its financial assets at initial recognition in the following categories:

- Financial assets at fair value through profit or loss: A financial asset was classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives were also categorised as held for trading unless they were designated as hedges.

- Loans and advances: This category comprised of non-derivative financial assets with fixed and determinable payments that were not quoted in an active market. They arose when the Bank provided money directly to the borrower with no intention of trading the receivable.

- Available-for-sale: Investments classified as Available-for-sale were those non-derivative financial assets that were designated as available-for-sale or not classified as (a) loans and advances; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss.

3.5.2 Recognition and initial measurement

The Bank initially recognises loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.5.3 Amortised cost measurement principles

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal re-payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

3.5.4 Subsequent measurement

Subsequent to initial recognition, all financial instruments to be fair valued are measured at fair value, except any instrument that does not have a reliably measurable fair value, in which case financial instruments are measured as set out in the fair value measurement principles below.

All other assets are measured at amortised cost using the effective interest method less impairment losses, if any.

3 Significant accounting policies (continued)

3.5 Financial instruments (continued)

3.5.5 Gains and losses on subsequent measurement

Policies applicable after 1 January 2018

(a) Debt Investments

Gains and losses arising from changes in the fair value of FVOCI investments are recognised directly in equity through comprehensive income, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. Changes in the fair value of FVTPL investments are subsequently recognised in the profit or loss.

(b) Equity Investments

Gains and losses arising from changes in the fair value on equity investments are recognized in comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as other income when the right to receive payments is established.

Policies applicable before 1 January 2018

(a) Debt Investments

Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in equity through comprehensive income, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income. Gains and losses from changes in the fair value of held-for-trading investments are recognised in the consolidated statement of income.

(b) Equity Investments

Gains and losses arising from changes in the fair value on available-for-sale equity investments are recognized in comprehensive income, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income. Dividends from such investments continue to be recognised in profit or loss as other income when the right to receive payments is established.

3.5.6 De-recognition

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

3.5.7 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 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 applicable, 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.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all 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, 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 recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

3 Significant accounting policies (continued)

3.5 Financial instruments (continued)

3.5.7 Fair value measurement (continued)

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions 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 (or paid to transfer a net short 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 Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.5.8 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances arise when cash is advanced to a debtor with no intention of trading the receivable. Loans and advances are carried at amortised cost.

3.5.9 Investments

The 'investment securities' caption in the statement of financial position includes:
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:
- interest revenue using the effective interest method; and
- Expected credit losses (ECL) and reversals

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

3.5.10 Due from banks

Due from banks and financial institutions are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate less allowance for impairment, if any.

3.5.11 Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted current accounts with the Central Bank, deposits with the Central Bank with an original maturity of three months or less, and amounts due from (to) banks on demand or with an original maturity of three months or less.

3.5.12 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, with premium received included in 'Other liabilities'. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in 'Provision for credit losses'. The premium received is recognised in the statement of income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

3 Significant accounting policies (continued)

3.5 Financial instruments (continued)

3.5.13 Derivatives

The Bank enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in foreign exchange, interest rate and capital markets. In the normal course of business, the fair value of a derivative on initial recognition is the transaction price included in other income/expenses. Subsequent to their initial recognition, derivative financial instruments are stated at fair values where they are designated as part of a hedging relationship and classified as a hedging instrument. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position. Changes in the fair values of derivatives held for trading or to offset other trading positions are included in other operating income (expenses) in the consolidated statement of income.

As permitted by IFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is / are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Changes in the fair value of derivatives that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk are included in other operating income / (expenses) along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Upon such discontinuance, in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the consolidated statement of income over the remaining term to maturity.

Certain derivative transactions, while providing effective economic hedges under the Bank's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other operating income (expenses).

Derivatives may be embedded in another contractual agreement (host contract). Derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of income. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of income. Post adoption of IFRS 9, embedded derivatives are separated from the host contract, only if the host contract is not an asset in the scope of IFRS 9.

3.5.14 Impairment of financial assets

Following the adoption of IFRS 9, the Bank's accounting policy for impairment requirements are based on an expected credit loss (ECL) model, replacing the incurred loss methodology model under IAS 139.

Policy applicable from 1 January 2018

The Bank applies a three-stage approach to measuring expected credit losses (ECL) on financial instruments accounted for at amortised cost and FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

i) Stage 1: 12-months ECL
   For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

3 Significant accounting policies (continued)

3.5 Financial instruments (continued)

3.5.14 Impairment of financial assets (continued)

ii) Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

iii) Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. This uses the same criteria as under IAS 39, the Bank's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

The Bank measures loss allowances at an amount equal to 12-month Expected credit loss (ECL) for the following financial instruments which are considered to have low credit risk:

- balances with Central Bank and other banks
- debt investment securities; and
- other financial assets, mainly comprising of sundry receivables

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from financial guarantee contracts. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost and FVOCI: as a deduction from the gross carrying amount of the assets and adjustments to OCI respectively; and
- loan commitments and financial guarantee contracts: as a provision in other liabilities

Policy applicable before 1 January 2018

The Bank assessed at each statement of financial position date whether there was any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

3 Significant accounting policies (continued)

3.5 Financial instruments (continued)

3.5.14 Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to 'Provision for credit losses'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate ("EIR"). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income.

3 Significant accounting policies (continued)

3.5 Financial instruments (continued)

3.5.14 Impairment of financial assets (continued)

(ii) Available-for-sale financial investments (continued)

Future interest income continues to be accrued based on the reduced carrying amount of the asset, applying the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

3.6 Renegotiated loans (Applicable before and after 1 January 2018)

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

3.7 Write-off (Applicable before and after 1 January 2018)

The Bank writes off a loan or other financial asset (and any other related allowances for impairment losses) when the Bank Credit determines that the loans or other financial assets are uncollectible in whole or in part. This is determined after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Assets are written-off against provisions up to the extent of amount considered un-collectible.

However the Bank retains its full legal claim on, and may continue with its recovery effort including litigation, on written-off accounts.

3.8 Assets acquired in settlement of debts

In certain cases, the Bank may close out transactions by acquiring assets in settlement of debts. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment losses) at the date of exchange. These assets are recorded in "Other assets". It is the Bank's policy to dispose of such repossessed properties in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

3.9 Revenue recognition

For all financial instruments measured at amortised cost and debt financial instruments classified as FVOCI (as 'available for sale' before 1 January 2018), interest income or expense is recorded at the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

3 Significant accounting policies (continued)

3.9 Revenue recognition (continued)

Policy applicable for recognition of interest income from 1 January 2018

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Fees earned for provision of services over a period of time are accrued over that period. These fees include commission income, custody and other management advisory fees.

Other fee income and expense are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

3.10 Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of income in the period in which they arise. Fair values are evaluated, at least annually, by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of income in the period of derecognition.

3.11 Collateral pending sale

Real estate and other collaterals may be acquired as the result of settlement of certain loans and advances and are recorded in "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of these assets. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the statement of profit or loss. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the statement of profit or loss. The Bank's collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Bank operates.

3.12 Property and equipment

Property and equipment are stated at cost excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value. Freehold land is not depreciated as it is deemed to have an indefinite life.

Depreciation is calculated on a straight line basis over the estimated useful lives of property and equipment as follows:

Buildings	Over 25 years
Motor vehicles	Over 5 years
Furniture, fixtures and equipment	Over 3 to 8 years
Leasehold improvements	Over 12 years

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the consolidated statement of income in the year the asset is derecognised.

3 Significant accounting policies (continued)

3.13 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and can be reliably measured. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

3.14 Employees' end of service benefits

Provision is made, in accordance with the provisions of IAS 19, for the end of service benefits due to employees in accordance with the UAE labor law for their period of service up to the financial position date and the provision arising disclosed as 'provision for employees' end of service benefits' in the statement of financial position. The Bank pays its contributions in respect of UAE citizens under the UAE pension and social security law and no further liability exists.

3.15 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at mid-market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the consolidated statement of income.

3.16 Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Others.

3.17 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash-Generating Unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

3.18 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date. i.e. the date that the asset is delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

3.19 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

3 Significant accounting policies (continued)

3.20 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

3.21 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

3.22 Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the Bank and is therefore recognised as a financial liability in the statement of financial position. However, every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

3.23 Islamic financing and investment products

In addition to conventional banking products, the Bank offers its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.

The various Islamic instruments described below are accounted for, disclosed and presented in accordance with the requirements of the underlying substance of the instruments and IFRS / IAS / IFRIC.

Murabaha:

Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. Murabaha is a sale transaction in which the seller (Bank) expressly mentions the actual cost of the asset to be sold to the customer, and sells it to the customer on a cost plus mark-up (profit) basis. It is in fact the sale of an asset for a profit, usually on deferred payment basis.

Income on Murabaha financing is recognised on a time apportioned basis over the period of the Murabaha contract, using the effective profit rate method.

Ijara:

Ijara involves a contract where the Bank buys and then leases an item to a customer for a specified rental over a specific period. The duration of lease, as well as the basis for rental, are set and agreed in advance. The Bank acquires the beneficial ownership of the property to lease the usufruct to the customer.

Income on Ijara financing is recognised on a time apportioned basis over the lease term, using the effective profit rate method.

Qard:

A Qard is the transfer of ownership in tangible wealth (money), from the customer to the Bank, and it is binding on the Bank to return equal wealth (money) to the customer on demand or as per the agreed terms, which means that the principal is to be repaid on demand. The Islamic current account offered to customers is based on the concept of Qard, a profit free amount received from the customer to the Bank, on which no profit or other form of return is payable.

3 Significant accounting policies (continued)

3.23 Islamic financing and investment products (continued)

Wakala:

Wakala involves an agreement, based on the concept of Wakala Bil Istithmar, where the Bank becomes the investment agent (Wakil) for its customers (Muwakkil) for deposit of their funds in the Wakala investment account to be invested in Shariah-compliant investment instruments. The funds are used to generate profit for the customer by investing in Islamic financing facilities to the Bank's other customers or investing in other Shariah-compliant investment instruments.

Income generated from the Wakala deposits are paid to the customers and the Bank recognizes a corresponding expense in the statement of income. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the agent; otherwise, they are borne by the principal.

4 Significant management judgements and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation and uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described below:

Policies applicable from 1 January 2018

4.1 Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

4.2 Impairment of financial assets

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Significant increase in credit risk

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Bank uses its historical experience, internal credit risk grading system, external risk ratings and forecast information to assess deterioration in credit quality of a financial asset.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Importance of staging criteria

Staging is an important input in determining the IFRS 9 ECL, as it dictates loans would be classified as stage 1 (attracting 12 months ECL) and in stage 2 (attracting life time ECL). Staging under IFRS 9 is based on the assessment of relative movement in the credit quality of the loans from the time of initial recognition. Loans classified in stage 3 have objective evidence of impairment and in respect of which specific provisions have been established.

4 Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

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:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- decline in the realisable value of the security;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of 12 months as determined by the regulatory guidelines.

Measurement of ECL

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the 12 months and expected life of the financial asset discounted at its original effective interest rate.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models, other historical data and forward looking information.

The Bank considers its historical loss experience and adjusts this for current observable data. In addition, the Bank uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. IFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, real annual growth in gross domestic product and oil prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

Policies applicable before 1 January 2018

4.3 Impairment losses on financial assets

The Bank reviewed its individually significant loans and advances at each statement of financial position date to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

Loans and advances that were assessed individually and found not to be impaired and all individually insignificant loans and advances were then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provisions should be made due to incurred loss events for which there is objective evidence but whose effects were not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratio etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

4 Significant management judgements and estimates (continued)

Policy applicable before 1 January 2018

4.4 Impairment of investments

The Bank treats its investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that the loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated. The determination of what is "significant" or "prolonged" requires considerable judgment. The Bank evaluates a number of factors, including the amount of decline and the length of period of the decline, the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities and debt securities. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

4.5 Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future, at least beyond 12 months from the balance sheet date. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

5 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Banks financial assets and financial liabilities as at 1 January 2018.

As at 1 January 2018 AED'000	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Balances with UAE Central Bank	Loans and receivables	Amortised cost	2,016,628	2,016,628
Due from other banks	Loans and receivables	Amortised cost	413,528	413,528
Loans and advances	Loans and receivables	Amortised cost	13,128,347	12,878,544
Investments	Available-for-sale	FVOCI	3,198,450	3,198,450
Investments	Held-to-maturity	Amortised cost	18,489	18,252
Investments	Held-for-trading	FVTPL	196,497	196,497
Other assets	Loans and receivables	Amortised cost	1,066,040	1,066,040
Derivatives	FVTPL	FVTPL	110,761	110,761
Total financial assets			**20,148,740**	**19,898,700**
Due to banks	Amortised cost	Amortised cost	1,543,890	1,543,890
Customer deposits	Amortised cost	Amortised cost	15,049,917	15,049,917
Medium term borrowings	Amortised cost	Amortised cost	844,629	844,629
Other liabilities	Amortised cost	Amortised cost	1,046,686	1,110,853
Derivatives	FVTPL	FVTPL	88,948	88,948
Total financial liabilities			**18,574,070**	**18,638,237**

The difference in the carrying amounts noted above are only on account of re-measurement of impairment losses on loans and advances, investments classified as FVOCI, letters of credit and financial guarantees. There is no impact due to reclassification.

There were no changes to the classification and measurement of financial liabilities that would have been required in accordance with IFRS 9 at 1 January 2018.

6 Cash and balances with UAE central bank

	2018 AED'000	2017 AED'000
Cash on hand	**98,468**	83,551
Balances with UAE Central bank:		
Clearing accounts	**264,047**	271,735
Certificate of deposits	**900,000**	1,000,000
Reserve requirements	**628,252**	661,342
	1,890,767	2,016,628

The reserve requirements, kept with the UAE Central Bank in AED and USD, are not available for use in the Bank's day to day operations and cannot be withdrawn without its approval. However, the Central Bank in its Circular 4310/2008 dated 24 September 2008, has temporarily permitted banks to overdraw their current accounts (a) up to the amount of reserves at interest of 3% above the prevailing Central Bank Repo rate; and (b) in excess of reserves at interest of 5% above the prevailing Central Bank Repo rate. The level of reserve required changes every month in accordance with the UAE Central Bank directives.

7 Due from other banks

	2018 AED'000	2017 AED'000
Demand deposits	**116,197**	203,355
Term deposits	**403,975**	210,173
	520,172	413,528

Due from other banks includes AED 98,787,000 (2017: AED 170,937,000) placed with foreign banks outside the UAE. AED 7,969,000 (2017: AED 21,226,000) is held with other banks as margin for derivative transactions.

8 Loans and advances

	2018 AED'000	2017 AED'000
The composition of the loans and advances portfolio is as follows:		
(a) By type:		
Overdrafts	**1,728,608**	1,634,888
Loans (medium and short term)*	**10,652,535**	10,802,585
Loans against trust receipts	**1,027,101**	1,281,644
Bills discounted	**245,431**	233,693
Other cash advances	**51,184**	70,006
Bills drawn under letters of credit	**197,955**	135,690
Gross amount of loans and advances	**13,902,814**	14,158,506
Less: Provision for impairment on loans and advances	**(1,143,713)**	(1,030,159)
Net loans and advances	**12,759,101**	13,128,347

* Includes retail loans of AED 3,059,763,000 (2017: AED 3,322,112,000)

	2018 AED'000	2017 AED'000
(b) By economic sector:		
Government and public sector	**434,645**	479,360
Trade	**2,372,455**	2,088,028
Personal loans (retail and business)	**5,454,158**	5,846,945
Manufacturing	**1,419,723**	1,633,157
Construction	**847,282**	798,066
Services	**1,372,529**	1,480,110
Financial institutions	**1,379,313**	1,220,212
Transport and communication	**510,346**	589,825
Others	**112,363**	22,803
Gross amount of loans and advances	**13,902,814**	14,158,506

Loans and advances are stated net of provision for impairment.

8 Loans and advances (continued)

The following table shows a reconciliation from the opening to the closing balance of the loss allowance on loans and advances. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

AED'000	*Stage 1* 12 month ECL	*Stage 2* Lifetime ECL not credit impaired	*Stage 3* Lifetime ECL credit impaired	*Total*
Loans and advances				
Balance as at 1 January 2018	**75,835**	**445,437**	**758,690**	**1,279,962**
Changes due to financial assets recognised in the opening balance that have:				
Transferred to 12 month ECL	**83**	**(83)**	-	-
Transferred to lifetime ECL not credit impaired	**(6,049)**	**6,049**	-	-
Transfer to lifetime ECL credit-impaired	-	**(133,720)**	**133,720**	-
Charge to income statement from continuing operations	**(9,833)**	**30,948**	**262,433**	**283,548**
Write-offs	-	-	**(419,797)**	**(419,797)**
Balance at 31 December 2018	**60,036**	**348,631**	**735,046**	**1,143,713**

The movement in provision during the year 2017 is as follows:

	2017 AED'000
Balance at 1 January	988,992
Charged during the year	548,649
Released during the year	(234,457)
	314,192
Amounts written off (net) during the year	(273,025)
Balance at 31 December	1,030,159

At 31 December 2018, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to AED 1,250,603,000 (2017: AED 1,206,434,000).

Provision for credit losses recognised in the consolidated statement of income is as follows:

	2018 AED'000	2017 AED'000
Net impairment of financial assets	**267,120**	314,192
Recovery on bad debts written off	**(25,225)**	(24,915)
Provision for credit losses	**241,895**	289,277

8 Loans and advances (continued)

Sector wise analysis of impaired loans and advances and related provisions is as follows:

	2018		2017	
	Gross exposure AED'000	**Impairment provision AED'000**	Gross exposure AED'000	Specific provision AED'000
By economic sector				
Trade	**292,398**	**198,360**	287,061	211,436
Personal loans (retail and business)	**112,717**	**43,431**	220,147	147,187
Manufacturing	**293,014**	**154,380**	288,883	100,376
Construction	**86,277**	**47,995**	778	343
Services	**225,878**	**169,868**	408,168	315,796
Financial institutions	**84,778**	**41,336**	-	-
Transport and communication	**155,541**	**79,676**	1,397	429
Total	**1,250,603**	**735,046**	1,206,434	775,567

The fair value of collateral that the Bank holds relating to loans to corporate and retail customers individually determined to be impaired at 31 December 2018 amounts to AED 601,168,000 (2017: AED 511,025,000). The collateral consists of cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory, trade receivables, and guarantees from parent companies for loans to their subsidiaries or other group companies. During the year, the Bank repossessed collaterals amounting to AED 17,528,000 (2017: AED 275,632,000).

9 Investments

	2018			2017		
	Quoted AED'000	**Unquoted AED'000**	**Total AED'000**	Quoted AED'000	Unquoted AED'000	Total AED'000
Debt:						
FVOCI						
Local	**2,988,555**	**-**	**2,988,555**	-	-	-
Overseas	**596,347**	**-**	**596,347**	-	-	-
Available for sale						
Local	**-**	**-**	**-**	2,714,638	-	2,714,638
Overseas	**-**	**-**	**-**	474,611	-	474,611
FVTPL						
Overseas	**190,969**	**-**	**190,969**	-	-	-
Held for trading						
Overseas	**-**	**-**	**-**	196,497	-	196,497
Amortised Cost						
Local	**48,852**	**-**	**48,852**			
Held to maturity						
Local	**-**	**-**	**-**	18,489	-	18,489
Total debt securities	**3,824,723**	**-**	**3,824,723**	3,404,235	-	3,404,235
Equity:						
FVOCI						
Local	**-**	**467**	**467**	-	-	-
Overseas	**291**	**76**	**367**	-	-	-
Available for sale						
Local	**-**	**-**	**-**	-	301	301
Overseas	**-**	**-**	**-**	8,824	76	8,900
Total equities	**291**	**543**	**834**	8,824	377	9,201
Total investments	**3,825,014**	**543**	**3,825,557**	3,413,059	377	3,413,436
Expected credit loss			**(1,423)**			-
Net investments			**3,824,134**			3,413,436

At 1 January 2018, the Bank designated certain investments shown in the above table as equity securities as at FVOCI. In 2017, these investments were classified as available-for-sale and measured at fair value. The FVOCI designation was made because the investments are expected to be held long-term for strategic purposes.

Included in the above are investment securities amounting to AED 678,372,000 (2017: AED 784,565,000) secured under repurchase agreement with the lenders.

During the year, the Bank has invested in unquoted shares of a company amounting to AED 166,000 (2017: AED 301,000) which have been categorised as level 3.

9 Investments (continued)

The following table shows a reconciliation from the opening to the closing balance of the loss allowance on investments. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3.

AED'000	*Stage 1 12 month ECL*	*Stage 2 Lifetime ECL not credit impaired*	*Stage 3 Lifetime ECL credit impaired*	*Total*
Investments – FVOCI & Amortised cost				
Balance as at 1 January 2018	**15,718**	**431**	**-**	**16,149**
Changes due to financial assets recognised in the opening balance that have:				
Transferred to 12 month ECL	**431**	**(431)**	**-**	**-**
Charge to income statement from continuing operations	**4,780**	**-**	**-**	**4,780**
Balance at 31 December 2018	**20,929**	**-**	**-**	**20,929**

10 Property, equipment and capital work-in-progress

	Freehold land and buildings AED'000	Motor vehicles, leasehold improvements, furniture, fixtures and equipment AED'000	Capital work-in-progress AED'000	Total AED'000
Cost or valuation:				
At 1 January 2018	432,257	267,162	83,280	782,699
Additions	103	4,927	16,763	21,793
Transfers	-	3,355	(3,355)	-
Write-offs	-	(9,154)	-	(9,154)
Disposals	-	(425)	-	(425)
At 31 December 2018	432,360	265,865	96,688	794,913
Depreciation:				
At 1 January 2018	15,894	176,845	-	192,739
Charge for the year	3,744	25,613	-	29,357
Transfer	-	-	-	-
Write-offs	-	(5,295)	-	(5,295)
Disposals	-	(243)	-	(243)
At 31 December 2018	19,638	196,920	-	216,558
Net Carrying Value:				
At 31 December 2018	412,722	68,945	96,688	578,355

	Freehold land and buildings AED'000	*Motor Vehicles, leasehold improvements, furniture, fixtures and equipment AED'000*	*Capital work-in-progress AED'000*	*Total AED'000*
Cost or valuation:				
At 1 January 2017	436,030	264,241	47,311	747,582
Additions	103	10,180	37,179	47,462
Transfers	-	1,210	(1,210)	-
Write-offs	(3,876)	(4,883)	-	(8,759)
Disposals	-	(3,586)	-	(3,586)
At 31 December 2017	432,257	267,162	83,280	782,699
Depreciation:				
At 1 January 2017	13,010	150,247	-	163,257
Charge for the year	3,753	31,989	-	35,742
Transfer	-	-	-	-
Write-offs	(869)	(2,890)	-	(3,759)
Disposals	-	(2,501)	-	(2,501)
At 31 December 2017	15,894	176,845	-	192,739
Net Carrying Value:				
At 31 December 2017	416,363	90,317	83,280	589,960

The cost of freehold land included above is AED 338,368,000 (2017: AED 338,368,000).

10 Property, equipment and capital work-in-progress (continued)

During 2018, additions to capital work in progress relate to expenditure incurred in connection with the purchase of leasehold improvements, furniture, fixtures and equipment amounting to AED 16,763,000 (2017: AED 37,179,000). Upon completion of associated projects, AED 3,355,000 (2017: AED 1,210,000) was transferred to 'motor vehicles, leasehold improvements, furniture, fixtures and equipment'.

During 2018, the Bank undertook a review of its branch network and wrote off building and furniture and equipment with a net carrying value of AED 3,859,000 (2017: AED 5,000,000)

Intangible assets relating to computer software are included within equipment with a net carrying value of AED 20,357,000 (2017: AED 26,814,000).

11 Other assets

	2018 **AED'000**	2017 AED'000
Interest receivable	**102,020**	71,168
Positive fair value of derivatives (Note 25)	**83,636**	110,761
Acceptances	**385,744**	671,166
Prepayments and other assets	**73,928**	48,074
Assets repossessed in settlement of debts	**293,160**	275,632
	938,488	1,176,801

12 Due to banks

	2018 **AED'000**	2017 AED'000
Demand deposits	**30,168**	41,942
Term deposits	**2,121,280**	1,501,948
	2,151,448	1,543,890

Term deposits include borrowings through repurchase agreements of AED 550,875,000 (2017: AED 642,653,000). Demand deposits include AED 18,495,000 (2017: AED 28,079,000) held as margin for derivative transactions.

13 Customers' deposits

	2018 **AED'000**	2017 AED'000
Term and call deposits	**10,177,315**	11,094,811
Current accounts	**3,630,325**	3,645,735
Saving accounts	**231,319**	309,371
	14,038,959	15,049,917

14 Medium term borrowings

Movement in medium term borrowings during the year is as follows:

	2018 **AED'000**	2017 AED'000
Balance as at 1 January	**844,629**	1,524,005
Issued during the year	**679,413**	-
Repaid during the year	**(569,192)**	(679,376)
Balance as at 31 December	**954,850**	844,629

14 Medium term borrowings (continued)

The below table details the maturity, currency and interest rate details of the medium term borrowings:

Maturity	Currency	Fixed / Floating	Interest Rate	2018 AED'000	2017 AED'000
2018	USD	Floating	LIBOR + Margin	-	844,629
2019	USD	Floating	LIBOR + Margin	275,437	-
2020	USD	Floating	LIBOR + Margin	679,413	-
				954,850	844,629

15 Other liabilities

	2018 AED'000	2017 AED'000
Interest payable	167,266	134,365
Staff related provisions	30,339	30,099
Negative fair value of derivatives (Note 25)	64,088	88,948
Acceptances	385,744	671,166
ECL on off-balance sheet exposures	42,958	-
Un-presented cheques	32,403	51,933
Others	113,502	159,123
	836,300	1,135,634

	2018 AED'000	2017 AED'000
Staff related provisions		
The aggregate employee entitlement liability comprises:		
Employees' end of service benefits	28,519	28,116
Other liabilities	1,820	1,983
	30,339	30,099

In accordance with UAE labour law, the Bank provides for end of service benefit for its expatriate employees. Movements in the liability recognised in the statement of financial position in respect of end of service benefits are as follows:

	2018 AED'000	2017 AED'000
Liability as at 1 January	28,116	30,115
Expense recognised in the statement of income	8,095	4,233
End of service benefits paid	(7,692)	(6,232)
Liability as at 31 December	28,519	28,116

16 Share capital and reserves

a) Share capital

The authorised, issued and fully paid up share capital of the Bank comprises 2,062,550,649 (2017: 1,375,033,766) shares of AED 1 each. See note 23 for details.

On 15 January 2018, the Bank held an Extraordinary General Meeting to approve a rights issue, offering existing shareholders 1 ordinary share for every 2 ordinary shares held. Subsequently in March 2018, the rights issue was fully subscribed and resulted in an increase in the paid up share capital of the Bank by AED 687,516,883 from AED 1,375,033,766 (1,375,033,766 ordinary shares) to AED 2,062,550,649 (2,062,550,649 ordinary shares).

16 Share capital and reserves (continued)

b) Special reserve

Decretal Federal Law No. (14) of 2018 concerning the Central Bank, the Monetary System and Organisation of Banking requires that 10% of the net profit is transferred to a non-distributable special reserve until this reserve equals 50% of the paid up share capital.

c) Statutory reserve

UAE Federal Law No.(2) of 2015 and the Articles of Association of the Bank, require that 10% of the net profit is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital.

d) General reserve

The general reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the bank at an ordinary general meeting, on the recommendation of the Board of Directors.

e) Revaluation reserve

The revaluation reserve is used to record increases in the fair value of freehold land and buildings and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in comprehensive income. In 2008, the Bank changed its accounting policy to the cost basis of accounting for land and buildings.

f) Dividends

The directors do not propose any cash dividend for the year ended 31 December 2018 (2017: Nil).

g) Cumulative changes in fair value

Cumulative changes in fair value reserve includes the net change in fair value of available-for-sale financial assets and the net effective portion of changes in fair value of cash flow hedges (if any).

17 Interest income

	2018 AED'000	2017 AED'000
Interest on loans and advances to customers	**720,333**	694,113
Interest on money market and interbank transactions	**79,336**	39,593
Interest on debt investments securities	**133,399**	108,946
	933,068	842,652

18 Interest expense

	2018 AED'000	2017 AED'000
Interest on customer deposits	**297,123**	255,548
Interest on interbank transactions	**147,718**	97,663
	444,841	353,211

19 Net fees and commission income

	2018 AED'000	2017 AED'000
Fees on letters of credit and acceptances	**17,874**	21,504
Fees on guarantees	**31,289**	33,234
Fees on loans and advances	**41,760**	67,758
Commission expense	**(14,626)**	(16,516)
	76,297	105,980

20 Foreign exchange income

Foreign exchange income comprises mainly of net gains of AED 21,523,000 (2017: AED 31,464,000) arising from trading in foreign currencies.

21 Other operating income

	2018 AED'000	2017 AED'000
Charges recovered from customers	28,908	33,899
Income from collections	4,420	5,055
Others	20,088	3,120
	53,416	42,074

Other income primarily includes realized loss of AED 4,370,000 (2017: gain of AED 3,453,000) on sale of available-for-sale investments.

22 Other operating expenses

	2018 AED'000	2017 AED'000
Occupancy and maintenance costs	41,672	49,406
Legal and professional fees	16,303	21,845
Other administrative expenses	19,128	43,427
Write-off of property and equipment	3,858	5,000
	80,961	119,678

23 Earnings per share

Basic earnings per share is based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding calculated as follows:

	2018 AED'000	2017 AED'000
Net profit for the year	77,227,000	17,343,000
Number of ordinary shares:		
Ordinary shares of AED 1 each at the beginning of the year	1,375,033,766	1,375,033,766
Ordinary shares rights issue of 1 for every 2 held of AED 1 each issued during the year	687,516,883	-
Ordinary shares of AED 1 each at the end of the year	2,062,550,649	1,375,033,766
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 January	1,375,033,766	1,375,033,766
Effect of bonus shares	196,433,395	196,433,395
Deemed number of shares in issue before rights issue	1,571,467,161	1,571,467,161
Effect of rights issue of 491,083,488 shares weighted for 10 months of the year	409,236,240	-
Weighted average number of shares of AED 1 each outstanding for the year	1,980,703,401	1,571,467,161
Basic earnings per share	AED 0.04	AED 0.01

The figures for diluted earnings per share are the same as basic earnings per share as the Bank has not issued any instruments which would have an impact on earnings per share if or when exercised.

24 Related party transactions

The Bank carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Bank, directors of the Bank, key management personnel of the Bank and companies over which such shareholders and directors exercise control or significant influence either directly or indirectly. The significant balances outstanding at 31 December are as follows:

	2018 AED'000	2017 AED'000
Shareholders:		
Due from banks	**1,330**	1,413
Due to other banks	**3,816**	5,180
Medium term borrowings	**165,263**	91,808
Commitments and contingencies	**5,310**	12,491
Directors:		
Loans and advances	**215,452**	250
Customers' deposits	**4,699**	8,545
Commitments and contingencies	**45**	45

	2018 AED'000	2017 AED'000
Other related entities of shareholders and directors:		
Loans and advances	**292,745**	293,499
Investments	**70,070**	85,850
Due from banks	**10**	101
Due to other banks	**177**	68
Customers' deposits	**161,711**	179,566
Commitments and contingencies	**216,162**	245,614
Key management personnel of the Bank:		
Loans and advances	**2,086**	5,699
Customers' deposits	**2,848**	4,696

	2018 AED'000	2017 AED'000
Shareholders, directors and their related entities and key management personnel:		
Accrued interest income	**7,713**	4,779
Accrued interest expense	**2,240**	3,011

24 Related party transactions (continued)

The income, expenses, purchase and sale of investments in respect of related parties during the year included in the statement of income are as follows:

Shareholders, directors and their related entities	**2018 AED'000**	2017 AED'000
Interest income	**39,516**	21,524
Interest expense	**4,585**	6,297
(Loss) / gain from sale of investments	**(2,746)**	146
Purchase of investments	**25,454**	20,434
Sale of investments	**34,163**	20,398

Key management personnel

	2018 AED'000	2017 AED'000
Number of key management personnel	**8**	10
Salaries and other short term benefits	**18,075**	16,800
Employees' end of service benefits	**939**	2,328
Total compensation to key management personnel	**19,014**	19,128
Interest income	**42**	143
Interest expense	**64**	22

Terms and conditions of transactions with related parties

The above mentioned outstanding balances and transactions arose from the ordinary course of business and have been conducted on an arm's length. The interest charged to, and by, related parties is at normal commercial rates. Outstanding balances at year end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2018, the Bank has not recorded any impairment on amounts owed by related parties (2017: Nil).

The Bank has leased office space in various premises owned by a related party. The property rentals and associated expenses for the year amounted to AED 2,681,000 (2017: AED 2,396,000). The property rentals are negotiated each year at market rates.

25 Derivatives

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards and swaps.

25.1 Derivative product types

a) Forward Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Bank has credit exposure to the counterparties of forward contracts.

b) Options

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

c) Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

25.2 Purpose of derivatives

The Bank is a party to derivative instruments in the normal course of meeting the needs of the Bank's customers. In addition, as part of its risk management activity, the Bank uses these derivative instruments for hedging purposes in order to reduce its own exposure to current and expected risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

Over-the-counter derivatives may expose the Bank to the risks associated with the absence of an exchange market on which to close out an open position.

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices actual market transactions and the Bank's best estimate of the most appropriate model inputs (Note 27).

The tables below show the fair values of derivative financial instruments for risk management and hedging purposes, recorded as assets and liabilities, together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor credit risk.

25 Derivatives (continued)

25.2 Purpose of derivatives (continued)

25.2.1 Derivatives held for risk management

31 December 2018	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amounts by term to maturity: Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
Forward contracts	62,469	(45,496)	11,997,742	5,984,663	4,190,590	1,822,489	-
Foreign currency options	15	-	4,205	-	4,205	-	-
Interest rate swaps	21,152	(2,211)	413,143	-	8,593	404,550	-
	83,636	(47,707)	12,415,090	5,984,663	4,203,388	2,227,039	-

31 December 2017	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amounts by term to maturity: Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
Forward contracts	100,151	(74,168)	18,506,959	6,868,998	6,592,895	5,045,066	-
Foreign currency options	49	(15)	24,972	24,972	-	-	-
Interest rate swaps	1,379	(1,461)	455,928	-	-	150,849	305,079
	101,579	(75,644)	18,987,859	6,893,970	6,592,895	5,195,915	305,079

Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in fair values of fixed-rate investments in respect of a benchmark interest rate. Interest rate swaps are matched to specific purchases of investments.

The Bank hedges interest rate risk only to the extent of benchmark interest rates. The benchmark rate is a component of interest rate risk that is observable in relevant environments. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

When fair value hedge accounting is applied by the Bank, the Bank assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair value of the hedged item using regression analysis. The assessment is based on an evaluation of the quantitative measures of the regression results.

The fair value of the swaps is disclosed in other assets (liabilities) and the carrying amount of the hedged items included in the line item 'Investments' in the statement of financial position. Fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other operating income.

At 31 December 2018, the Bank held the following interest rate swaps as hedging instruments in fair value hedges of interest risk, along with amounts relating to hedged items.

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amounts by term to maturity: Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
31 December 2018							
Hedge of investments	18,941	(16,381)	2,737,962	-	-	810,337	1,927,625
31 December 2017							
Hedge of investments	9,182	(13,304)	1,539,817	-	-	304,801	1,235,016

25 Derivatives (continued)

25.2 Purpose of derivatives (continued)

25.2.1 Derivatives held for risk management (continued)

Fair value hedges of interest rate risk (continued)

The carrying amount of the hedged items are included in the line item 'Investments' on the statement of financial position with the notional amount totalling to AED 2,716,187,000 (2017: AED 1,592,899,000). These hedged items comprise of debt instruments which are held as FVOCI.

During 2018, the Bank has recognised a gain of AED 2,438,000 (2017: loss of AED 4,987,000) relating to hedge ineffectiveness calculated as follows:

	2018		**2017**	
	Change in value AED'000	**Ineffectiveness recognised in profit and loss AED'000**	Change in value AED'000	Ineffectiveness recognised in profit and loss AED'000
On hedging instruments	**(4,120)**	**2,438**	17,254	(4,987)
On hedged items	**6,558**		(22,241)	

25.3 Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. Approximately 98% (2017: 97%) of the Bank's derivative contracts are entered into with other financial institutions.

26 Contingent liabilities and commitments

Credit related commitments

The Bank's contractual amounts in respect of letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced, guarantees are called for full amount following performance failure, and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to make the loan. These commitments are revocable and generally have fixed expiry dates or other termination clauses. Since commitments are revocable, may expire without being drawn down, and also the conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent future cash outflow requirements.

26 Contingent liabilities and commitments (continued)

The Bank has the following credit related commitments:

	2018 AED'000	2017 AED'000
Contingent liabilities		
Letters of credit	**404,649**	448,907
Guarantees	**3,434,351**	3,593,558
	3,839,000	4,042,465
Commitments		
Undrawn loan commitments	**2,563,401**	2,496,648

The following table shows a reconciliation from the opening to the closing balance of the loss allowance on contingent liabilities. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3.

AED'000	*Stage 1 12 month ECL*	*Stage 2 Lifetime ECL not credit impaired*	*Stage 3 Lifetime ECL credit impaired*	*Total*
Letters of credit and guarantees				
Balance as at 1 January 2018	**11,486**	**35,805**	**16,876**	**64,167**
Changes due to provisions recognised on the opening balance that have:				
Transferred to lifetime ECL not credit impaired	**(587)**	**587**	-	-
Charge to income statement from continuing operations	**2,000**	**(6,332)**	**(16,876)**	**(21,208)**
Balance at 31 December 2018	**12,899**	**30,060**	-	**42,959**

27 Risk management

Introduction

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

Risk Management covers all risks including credit, liquidity, market and operational risk, and processes from origination to approval and ongoing control, review, maintenance and reporting of exposures. It also covers the high level organisation, roles and responsibilities of Board and management level committees, and authorities and processes relating to risk management, internal controls, compliance and internal audit functions.

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

Risk Management Structure

Board level committees

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate board sub-committees responsible for managing and monitoring risks.

(a) Board Credit Committee

The Board Credit Committee (BCC) has the responsibility to establish credit risk strategy and monitor the overall credit process within the Bank for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of the portfolio, and complying with Credit Policy and regulatory guidelines.

(b) Board Audit Committee

The Board Audit Committee (BAC) is responsible for monitoring, reviewing and reporting to the Board on the formal arrangements relating to the financial and narrative reporting of the Bank, internal controls, compliance and internal / external audit processes.

(c) Board Risk Committee

The Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancing the Bank's risk management framework to best practices standards. This includes, but is not limited to, ensuring effective control structures and the monitoring of aggregate risk exposures (including but not limited to credit, market, liquidity, operational and legal).

(d) Group Remuneration Committee

The Group Remuneration Committee (GRC) acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles. The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements.

Management groups

The Board level committees are further supplemented by the management groups / functions who are responsible for day to day monitoring of risks.

27 Risk management (continued)

Risk Management Structure (continued)

Management groups (continued)

(a) Risk Management Group

The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organization to support their activities, while safe-guarding the risk profile of the Bank. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC and BRC.

(b) Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

(c) Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of, and the Bank's compliance with, its procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect both 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. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to identify, analyse and control at an early stage. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assess the appropriateness of the allowance for credit losses on a quarterly basis.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure all business divisions have access to extensive, necessary and up-to-date information.

Regular briefings are given to the Chief Executive Officer, GMRC and all other relevant members of management on all aspects of risk taken by the Bank including the utilisation of limits, proprietary investments and liquidity, plus any other risk developments.

Risk Mitigation

The Bank actively uses collateral to reduce its credit risks.

Also, as part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

Risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

27 Risk management (continued)

Risk concentration (continued)

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

Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment / contractual obligation, resulting in a financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is the single largest risk for the Bank's business and is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

	Notes	**2018 AED'000**	2017 AED'000
Cash and balances with UAE Central Bank (excluding cash on hand)	6	**1,792,299**	1,933,077
Due from other banks	7	**520,172**	413,528
Loans and advances (net of provisions)	8	**12,759,101**	13,128,347
Investments	9	**3,824,723**	3,404,235
Other assets*	11	**618,045**	877,583
*excluding prepayments and assets acquired in settlement of debt			
Total		**19,514,340**	19,756,770
Letters of credit	26	**404,649**	448,907
Guarantees	26	**3,434,351**	3,593,558
Undrawn loan commitments	26	**2,563,401**	2,496,648
Total		**6,402,401**	6,539,113
Total credit risk exposure		**25,916,741**	26,295,883

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

27 Risk management (continued)

Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client / counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2018 was AED 448,483,000 (2017: AED 515,751,000).

The Bank's maximum exposure to credit risk, after provisions but before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2018		2017	
	Assets AED'000	**Contingent liabilities and commitments AED'000**	Assets AED'000	Contingent liabilities and commitments AED'000
United Arab Emirates	**17,372,395**	**5,864,089**	17,750,833	6,063,152
Other Middle East countries	**1,516,345**	**269,423**	1,297,741	208,454
Europe	**75,082**	**32,236**	114,942	74,900
USA	**234,814**	**-**	296,740	-
Rest of the World	**315,704**	**236,653**	296,514	192,607
Total	**19,514,340**	**6,402,401**	19,756,770	6,539,113

An industry sector analysis of the Bank's maximum exposure to credit risk (excluding cash on hand) after provisions but before taking into account collateral held or other credit enhancements, is as follows:

	2018 AED'000	2017 AED'000
Financial services	**4,198,045**	4,107,554
Trade	**2,499,536**	2,494,456
Manufacturing	**1,602,617**	1,810,919
Government and public sector	**3,924,156**	3,526,102
Construction	**927,998**	863,695
Services	**1,900,671**	2,105,174
Others	**5,605,030**	5,879,029
	20,658,053	20,786,929
Less: impairment provision on loans and advances	**(1,143,713)**	(1,030,159)
	19,514,340	19,756,770

27 Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of assets for certain key statement of financial position items, based on the Bank's credit rating system.

	2018			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Balances with UAE Central Bank				
High grade	1,792,299	-	-	1,792,299
Carrying amount	1,792,299	-	-	1,792,299
Due from Banks				
High grade	70,037	-	-	70,037
Standard	450,135	-	-	450,135
Carrying amount	520,172	-	-	520,172
Loans and advances				
High grade	117,415	29	-	117,444
Standard	10,006,840	854,973	28,752	10,890,565
Substandard	190,214	1,449,695	4,293	1,644,202
Default	-	-	1,250,603	1,250,603
Gross loans	10,314,469	2,304,697	1,283,648	13,902,814
Loss allowance	(60,036)	(348,631)	(735,046)	(1,143,713)
Carrying amount	10,254,433	1,956,066	548,602	12,759,101
Investments – FVOCI				
High grade	2,312,111	-	-	2,312,111
Standard	1,272,790	-	-	1,272,790
Gross investments	3,584,901	-	-	3,584,901
Loss allowance	(19,507)	-	-	(19,507)
Carrying amount	3,565,394	-	-	3,565,394
Investments – Amortised cost				
High grade	48,852	-	-	48,852
Gross investments	48,852	-	-	48,852
Loss allowance	(1,423)	-	-	(1,423)
Carrying amount	47,429	-	-	47,429
Other assets				
Standard	483,879	29,256	-	513,135
Substandard	1,805	19,468	-	21,273
Carrying amount	485,684	48,724	-	534,408
Guarantees / Letters of credit				
High grade	15,785	162	-	15,947
Standard	2,944,967	571,632	-	3,516,599
Substandard	10,150	250,922	-	261,072
Default	-	-	45,382	45,382
Gross exposure	2,970,902	822,716	45,382	3,839,000
Loss allowance	(12,899)	(30,058)	-	(42,957)
Carrying amount	2,958,003	792,658	45,382	3,796,043

27 Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The loan commitments of the Bank are all revocable and hence the same are not considered for ECL computation.

The table below refers to the credit quality analysis under IAS 39 for the comparative information.

31 December 2017	Neither past due nor impaired					
	High grade AED'000	Standard grade AED'000	Sub-standard grade AED'000	Past due but not impaired AED'000	Individually impaired AED'000	Total AED'000
Balances with the UAE Central Bank	1,933,077	-	-	-	-	1,933,077
Due from banks	181,948	231,580	-	-	-	413,528
Loans and advances (Gross)						
- Corporate	74,515	8,415,955	1,200,730	106,974	1,038,220	10,836,394
- Retail	-	3,141,858	-	12,040	168,214	3,322,112
Investments	2,140,548	1,263,687	-	-	-	3,404,235
Other assets	271,307	546,172	60,104	-	-	877,583
	4,601,395	13,599,252	1,260,834	119,014	1,206,434	20,786,929

Past due but not impaired

Past due loans and advances include those that are past due on their repayment schedule. The majority of the past due loans are not considered to be impaired. Aging analysis of past due but not impaired loans and advances is as follows:

31 December 2018	Less than 30 days AED'000	31 to 60 days AED'000	61 to 90 days AED'000	More than 91 days AED'000	Total AED'000
Loans and advances	53,642	12,285	59,373	60,810	186,110
31 December 2017					
Loans and advances	47,901	36,489	4,488	30,136	119,014

Approximately 95% (2017: 90%) of the above loans are advanced to the corporate sector.

Carrying amount per class of on-balance sheet financial assets whose terms have been renegotiated

	2018 AED'000	2017 AED'000
Loans and advances	990,290	1,049,297

Collateral and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The main types of collateral obtained are cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory and trade receivables. The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other group companies. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. Collateral is generally not held against non-trading investment and due from banks and financial institutions. Management monitors the market value of collateral and wherever necessary the Bank requests additional collateral in accordance with the underlying agreement, and considers collateral value during its periodic review of credit facilities and adequacy of provision for impairment on loans and advances.

27 Risk management (continued)

Credit risk (continued)

Collateral held and other credit enhancements (continued)

The percentage of collateralized exposure and the principal types of collateral held against loans and advances are as follows:

	Percentage of collateralized exposure		
	2018	**2017**	**Principal type of collateral held**
Retail Mortgage Loans	100%	100%	Residential property
Corporate customers	66%	65%	Cash, securities, vehicles, property and equipment, commercial property, inventory and trade receivables

Retail mortgage loans

Credit exposure on retail mortgage loans by range of loans to value (LTV) ratio are as follows:

LTV ratio	**2018 AED'000**	2017 AED'000
Less than 50%	**264,223**	314,366
51- 70%	**737,976**	909,562
71- 90%	**1,072,170**	818,643
91- 100%	**56,318**	48,268
More than 100%	**14,535**	-
Total	**2,145,222**	2,090,839

LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

Impaired loans

For impaired loans the value of collateral is based on the most recent appraisals. Credit exposure on impaired retail mortgage loans by range of LTV ratio are as follows:

LTV ratio	**2018 AED'000**	2017 AED'000
Less than 50%	**7,263**	5,511
51- 70%	**30,158**	32,133
More than 70%	**37,705**	26,327
Total	**75,126**	63,971

At 31 December 2018, the carrying amount of impaired loans and advances to retail customers (including mortgages) amounted to AED 112,718,000 (2017: AED 168,214,000) and the value of identifiable collateral held against those loans and advances amounted to AED 112,686,000 (2017: AED 100,120,000).

27 Risk management (continued)

Credit risk (continued)

Collateral held and other credit enhancements (continued)

Corporate customers

At 31 December 2018, the net carrying amount of impaired loans and advances to corporate customers amounted to AED 1,137,885,000 (2017: AED 1,038,220,000) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AED 488,482,000 (2017: AED 410,905,000). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that is held against.

Amounts arising from ECL

Inputs' assumptions and techniques used for estimating impairment (refer accounting policy in Note 3 above)

Significant increase in credit risk

To assess whether a significant increase in credit risk has occurred for an exposure, the Bank compares:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure.

For the above assessment, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience and credit assessment; and including forward-looking information.

<u>Importance of staging criteria</u>
As explained in Note 4 of the financial statements, staging (stages 1 to 3) is an important input criteria, to determine which loans would attract 12 months ECL, life time ECL or impairment provision.
- Staging is based on the assessment of relative movement in the credit quality of the loans from the time of initial recording.
- Loans in stage 3 are those loan for which the bank has objective evidence of impairment. Accordingly, specific provision is recorded for such exposures.
- Stage transfer is triggered by assessing relative change in credit risk (measured using lifetime risk of default) and not by absolute credit risk at reporting date
- 30 days past due

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Bank management's definition and criteria for significant increase in credit risk (stage 2) includes the following parameters:

➢ Exposures to corporate customers & financial institutions
  - 30 days past due
  - Restructuring flag
  - Special Assets Committee
  - Downgraded by 3 notches of a 22 scale as per internal rating guidelines

27 Risk management (continued)

Credit risk (continued)

Amounts arising from ECL (continued)

Inputs' assumptions and techniques used for estimating impairment (continued)

- Exposures to retail customers
  - 30 days past due
  - Restructuring flag
  - Abandoned segment
  - Pricing clusters

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposures	Retail exposures	All exposures
- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. - Data from credit reference agencies, press articles, changes in external credit ratings - Quoted bond and credit default swap (CDS) prices for the borrower where available - Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	- Internally collected data on customer behaviour - External data from credit reference agencies including industry-standard credit scores	- Payment record – this includes overdue status - Utilisation of the granted limit - Requests for and granting of forbearance - Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD:

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. Information purchased from external credit reference agencies is also used.

The Bank uses statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Group Market Risk Committee and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information).The Bank then uses these forecasts to adjust its estimates of PDs.

27 Risk management (continued)

Credit risk (continued)

Amounts arising from ECL (continued)

Inputs' assumptions and techniques used for estimating impairment (continued)

Definition of default:
The Bank considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank; and
- overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank considers indicators that are:
- qualitative-e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

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

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of forward-looking information:
The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group Market Risk Committee and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios incorporate the country's gross domestic product (GDP) and oil prices as key indicators for United Arab Emirates.

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 3 to 5 years.

Measurement of ECL:
As explained in Note 3 of the financial statements, the key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

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

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

27 Risk management (continued)

Credit risk (continued)

Amounts arising from ECL (continued)

Inputs' assumptions and techniques used for estimating impairment (continued)

Probability of default (PD):
PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

Loss given default (LGD):
LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Exposure at default (EAD):
EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stressed circumstances. To limit this risk, management have arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. 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 Bank maintains a portfolio of marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of UAE equal to 14% of current deposits and 1% of time deposits. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The most important of these is to maintain the regulatory limits for Lending to Stable Resources and Eligible Liquid Assets to total liabilities ratios. The Bank stresses the importance of current accounts, time deposits and savings accounts as a source of funds to finance its lending to customers. They are monitored using the lending to stable resources ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with medium term borrowing. Eligible Liquid Assets ratio was introduced by Central Bank of the UAE in 2015 and replaced the Liquid Assets ratio. Eligible liquid assets consist of cash, balances with the Central Bank of UAE, short term bank deposits and eligible debt securities. The ratios as at the year-end were as follows:

	2018	2017
Lending to Stable Resources Ratio	**80.8%**	82.0%
Eligible Liquid Assets Ratio	**15.4%**	15.3%

27 Risk management (continued)

Liquidity risk (continued)

Maturities of assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date not taking account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds, as at 31 December 2018 is as follows:

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Sub total less than 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Subtotal over 12 months AED'000	Undated AED'000	Total AED'000
Assets									
Cash and balances with the UAE Central Bank	1,840,767	-	50,000	1,890,767	-	-	-	-	1,890,767
Due from other banks	520,172	-	-	520,172	-	-	-	-	520,172
Loans and advances (Gross)	3,551,628	941,344	403,201	4,896,173	3,836,586	5,170,055	9,006,641	-	13,902,814
Investments	183,794	55,812	129,350	368,956	1,294,418	2,159,923	3,454,341	837	3,824,134
Property, equipment and capital work-in-progress	-	-	-	-	-	-	-	578,355	578,355
Other assets	490,752	74,246	40,139	605,137	315,963	17,388	333,351	-	938,488
Provision for impairment of loans and advances and interest in suspense	(1,143,713)	-	-	(1,143,713)	-	-	-	-	(1,143,713)
Total assets	5,443,400	1,071,402	622,690	7,137,492	5,446,967	7,347,366	12,794,333	579,192	20,511,017
Liabilities and shareholders' funds									
Due to banks	1,031,430	300,128	636,265	1,967,823	183,625	-	183,625	-	2,151,448
Customers' deposits	8,817,149	2,491,455	1,834,326	13,142,930	896,029	-	896,029	-	14,038,959
Medium term borrowings	-	-	275,438	275,438	679,412	-	679,412	-	954,850
Other liabilities	669,401	73,373	34,863	777,637	18,042	12,102	30,144	28,519	836,300
Shareholders' equity	-	-	-	-	-	-	-	2,529,460	2,529,460
Total liabilities and shareholders' equity	10,517,980	2,864,956	2,780,892	16,163,828	1,777,108	12,102	1,789,210	2,557,979	20,511,017
Net liquidity gap	(5,074,580)	(1,793,554)	(2,158,202)	(9,026,336)	3,669,859	7,335,264	11,005,123	(1,978,787)	-

27 Risk management (continued)

Liquidity risk (continued)

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

	Less than 3 months AED '000	*From 3 months to 6 months AED '000*	*From 6 months to 12 months AED '000*	*Sub total less than 12 months AED '000*	*1 to 5 years AED '000*	*Over 5 years AED '000*	*Subtotal over 12 months AED '000*	*Undated AED '000*	*Total AED '000*
Assets									
Cash and balances with the UAE Central Bank	2,016,628	-	-	2,016,628	-	-	-	-	2,016,628
Due from other banks	413,528	-	-	413,528	-	-	-	-	413,528
Loans and advances (Gross)	3,055,615	1,025,253	521,987	4,602,855	3,808,719	5,746,932	9,555,651	-	14,158,506
Investments	183,680	-	130,767	314,447	1,115,905	1,973,883	3,089,788	9,201	3,413,436
Property, equipment and capital work-in-progress	-	-	-	-	-	-	-	589,960	589,960
Other assets	703,637	94,221	36,992	834,850	331,960	9,991	341,951	-	1,176,801
Provision for impairment on loans and advances	(1,030,159)	-	-	(1,030,159)	-	-	-	-	(1,030,159)
Total assets	5,342,929	1,119,474	689,746	7,152,149	5,256,584	7,730,806	12,987,390	599,161	20,738,700
Liabilities and shareholders' equity									
Due to banks	651,521	249,716	91,808	993,045	550,845	-	550,845	-	1,543,890
Customers' deposits	10,889,472	2,085,233	1,736,069	14,710,774	339,143	-	339,143	-	15,049,917
Medium term borrowings	-	-	844,629	844,629	-	-	-	-	844,629
Other liabilities	902,873	95,665	26,054	1,024,592	71,860	11,066	82,926	28,116	1,135,634
Shareholders' funds	-	-	-	-	-	-	-	2,164,630	2,164,630
Total liabilities and Shareholders' equity	12,443,866	2,430,614	2,698,560	17,573,040	961,848	11,066	972,914	2,192,746	20,738,700
Net liquidity gap	(7,100,937)	(1,311,140)	(2,008,814)	(10,420,891)	4,294,736	7,719,740	12,014,476	(1,593,585)	-

27 Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2018 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial Liabilities	*On demand* *AED'000*	*Less than 3 months* *AED'000*	*3 to 12 months* *AED'000*	*1 to 5 years* *AED'000*	*Over 5 years* *AED'000*	*Total* *AED'000*
31 December 2018						
Due to banks	**30,168**	**1,005,956**	**975,231**	**200,539**	**-**	**2,211,894**
Customers' deposits	**3,930,507**	**7,061,768**	**3,904,810**	**355,767**	**-**	**15,252,852**
Medium term borrowings	**-**	**-**	**287,028**	**728,765**	**-**	**1,015,793**
Other liabilities	**188,863**	**300,373**	**80,170**	**7,021**	**-**	**576,427**
Financial derivatives	**-**	**18,563**	**55,688**	**259,702**	**145,347**	**479,300**
Total undiscounted financial liabilities	**4,149,538**	**8,386,660**	**5,302,927**	**1,551,794**	**145,347**	**19,536,266**

	On demand *AED'000*	*Less than 3 months* *AED'000*	*3 to 12 months* *AED'000*	*1 to 5 years* *AED'000*	*Over 5 years* *AED'000*	*Total* *AED'000*
31 December 2017						
Due to banks	41,942	610,786	346,617	568,041	-	1,567,386
Customers' deposits	3,930,507	7,061,768	3,904,810	355,767	-	15,252,852
Medium term borrowings	-	-	866,227	-	-	866,227
Other liabilities	190,956	575,428	92,121	25,700	-	884,205
Financial derivatives	-	9,416	28,249	141,759	75,122	254,546
Total undiscounted financial liabilities	4,163,405	8,257,398	5,238,024	1,091,267	75,122	18,825,216

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, these amounts may be settled gross or net. The following table shows the corresponding carrying amounts.

	On demand *AED'000*	*Less than 3 months* *AED'000*	*3 to 12 months* *AED'000*	*1 to 5 years* *AED'000*	*Over 5 years* *AED'000*	*Total* *AED'000*
31 December 2018						
Inflows	-	18,890	55,916	244,744	136,936	456,486
Outflows	-	(18,563)	(55,688)	(259,702)	(145,347)	(479,300)
Net	-	**327**	**228**	**(14,958)**	**(8,411)**	**(22,814)**
Discounted at applicable interbank rates	-	**318**	**221**	**(14,570)**	**(8,189)**	**(22,220)**

27 Risk management (continued)

Liquidity risk (continued)

	On demand AED'000	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
31 December 2017						
Inflows	-	6,455	20,983	125,950	74,844	228,232
Outflows	-	(9,416)	(28,249)	(141,759)	(75,122)	(254,546)
Net	-	(2,961)	(7,266)	(15,809)	(278)	(26,314)
Discounted at applicable interbank rates	-	(2,911)	(7,133)	(15,467)	(273)	(25,784)

The table below shows the contractual maturity profile of the Bank's contingent liabilities and commitments:

	On demand AED'000	***Less than 3 months AED'000***	***3 to 12 months AED'000***	***1 to 5 years AED'000***	***Over 5 years AED'000***	***Total AED'000***
31 December 2018						
Contingent liabilities	-	**2,800,124**	**813,996**	**224,880**	-	**3,839,000**
Commitments	**2,563,401**	-	-	-	-	**2,563,401**
Total	**2,563,401**	**2,800,124**	**813,996**	**224,880**	-	**6,402,401**
31 December 2017						
Contingent liabilities	-	3,020,692	784,191	237,582	-	4,042,465
Commitments	2,496,648	-	-	-	-	2,496,648
Total	2,496,648	3,020,692	784,191	237,582	-	6,539,113

The Bank expects that not all of the contingent liabilities or commitments will be drawn and therefore the actual cash flows are expected to be significantly lower than those reflected in the above table.

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's Asset and Liability Committee (ALCO).

27 Risk management (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities.

The following table summarises interest rate sensitivity position at the year end. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

31 December 2018	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Non Interest Sensitive AED'000*	*Carrying amount AED'000*
Assets						
Cash and balances with the UAE Central Bank	**850,000**	**50,000**	-	-	**990,767**	**1,890,767**
Due from other banks	**403,975**	-	-	-	**116,197**	**520,172**
Loans and advances	**10,143,760**	**979,063**	**1,267,203**	**369,075**	-	**12,759,101**
Investments	**183,794**	**185,162**	**1,294,418**	**2,159,926**	**834**	**3,824,134**
Property, equipment and capital work-in-progress	-	-	-	-	**578,355**	**578,355**
Other assets	-	-	-	-	**938,488**	**938,488**
Total assets	**11,581,529**	**1,214,225**	**2,561,621**	**2,529,001**	**2,624,641**	**20,511,017**
Liabilities and shareholders' equity						
Due to banks	**1,215,190**	**722,465**	**183,625**	-	**30,168**	**2,151,448**
Customers' deposits	**5,108,842**	**4,244,940**	**883,069**	-	**3,802,108**	**14,038,959**
Medium term borrowings	**954,850**	-	-	-	-	**954,850**
Other liabilities	-	-	-	-	**836,300**	**836,300**
Shareholders' equity	-	-	-	-	**2,529,460**	**2,529,460**
Total liabilities and shareholder' equity	**7,278,882**	**4,967,405**	**1,066,694**	-	**7,198,036**	**20,511,017**
On-balance sheet	**4,302,647**	**(3,753,180)**	**1,494,927**	**2,529,001**	**(4,573,395)**	-
Off-balance sheet	**3,151,105**	-	-	-	**12,001,947**	**15,153,052**
Cumulative interest rate sensitivity gap	**7,453,752**	**3,700,572**	**5,195,499**	**7,724,500**	**15,153,052**	-

27 Risk management (continued)

Interest rate risk (continued)

31 December 2017	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Non Interest Sensitive AED'000*	*Carrying amount AED'000*
Assets						
Cash and balances with the UAE Central Bank	1,000,000	-	-	-	1,016,628	2,016,628
Due from other banks	210,173	-	-	-	203,355	413,528
Loans and advances	8,040,178	1,396,224	2,683,795	1,008,150	-	13,128,347
Investments	220,403	130,767	1,237,794	1,815,273	9,199	3,413,436
Investment properties	-	-	-	-	-	-
Property, equipment and capital work-in-progress	-	-	-	-	589,960	589,960
Other assets	-	-	-	-	1,176,801	1,176,801
Total assets	9,470,754	1,526,991	3,921,589	2,823,423	2,995,943	20,738,700
Liabilities and shareholders' equity						
Due to banks	1,351,384	150,564	-	-	41,942	1,543,890
Customers' deposits	7,134,011	3,751,868	332,477	-	3,831,561	15,049,917
Medium term borrowings	844,629	-	-	-	-	844,629
Other liabilities	-	-	-	-	1,135,634	1,135,634
Shareholders' equity	-	-	-	-	2,164,630	2,164,630
Total liabilities and shareholders' equity	9,330,024	3,902,432	332,477	-	7,173,767	20,738,700
On-balance sheet	140,730	(2,375,441)	3,589,112	2,823,423	(4,177,824)	-
Off-balance sheet	1,995,745	-	-	-	18,531,931	20,527,676
Cumulative interest rate sensitivity gap	2,136,475	(238,966)	3,350,146	6,173,569	20,527,676	-

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2018, including the effect of hedging instruments.

	2018		2017	
	Change in basis points	**Sensitivity of net interest income AED'000**	Change in basis points	Sensitivity of net interest income AED'000
Increase in rate	**+25**	**25,341**	+25	22,633
Decrease in rate	**-25**	**(25,341)**	-25	(22,633)

The interest rate sensitivity set out above relates primarily to the US Dollar as the Bank does not have any significant net exposure for non-trading floating rate financial assets and financial liabilities denominated in other currencies.

The Bank is also exposed to fair value risk arising from its unhedged fixed rate bonds portfolio. A change in the fair value of these bonds by +/-5% will result in a positive/negative change in the fair value reserve in equity by AED 2,900,000 (2017: AED 2,700,000).

27 Risk management (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

As the UAE Dirham and most of the GCC currencies are currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The tables below indicates the currencies to which the Bank had significant exposure at 31 December 2018 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the statement of income (due to the fair value of currency sensitive monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	2018		2017	
Currency	**Change in currency rate in %**	**Effect on profit AED'000**	Change in currency rate in %	Effect on profit AED'000
EUR	**+10**	**(6)**	+10	56
GBP	**+10**	**1**	+10	9

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

28 Segmental analysis

For the purposes of reporting to the chief operating decision makers, the Bank is organised into four segments:

Corporate banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;

Retail banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities as well as Islamic banking services;

Treasury - principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations (including overseeing the operations of Al Sadarah Investment Company prior to its winding up); and

Others - includes the non-core lending portfolio of SME and Personal Loans to Self-Employed businesses.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is debited / credited to business segments based on a pool rate which approximates the marginal cost of funds.

Segmental information for the year ended 31 December 2018 is as follows:

	Corporate banking AED'000	Retail Banking AED'000	Treasury AED'000	Others AED'000	Total AED'000
Net interest income	295,948	99,530	75,126	17,623	488,227
Other operating income	103,505	18,576	34,021	3,142	159,244
Operating expenses	(164,399)	(77,377)	(55,735)	(30,838)	(328,349)
Net impairment losses	(219,267)	(30,128)	(4,736)	12,236	(241,895)
Profit for the year	15,787	10,601	48,676	2,163	77,227
Capital Expenditure					
- Property and equipment	11,986	7,410	1,961	436	21,793
31 December 2018					
Segment Assets	10,989,241	3,096,231	6,318,709	106,836	20,511,017
Segment Liabilities	11,540,865	3,156,657	3,170,440	113,595	17,981,557

28 Segmental analysis (continued)

Segmental information for the year ended 31 December 2017 was as follows:

	Corporate banking AED'000	Retail Banking AED'000	Treasury AED'000	Others AED'000	Total AED'000
Net interest income	271,226	113,267	57,311	47,637	489,441
Other operating income	130,695	26,293	29,325	1,334	187,647
Operating expenses	(173,787)	(111,556)	(46,662)	(38,463)	(370,468)
Net impairment losses	(31,860)	(94,780)	-	(162,637)	(289,277)
Profit / (loss) for the year	196,274	(66,776)	39,974	(152,129)	17,343
Capital Expenditure					
- Property and equipment	26,104	16,137	4,272	949	47,462
31 December 2017					
Segment Assets	11,267,933	3,259,425	5,954,353	256,989	20,738,700
Segment Liabilities	12,423,029	3,483,529	2,477,467	190,045	18,574,070

The Bank operates in only one geographic area, the Middle East. Accordingly, no geographical analysis of operating income, net profit and net assets is given.

29 Fair values of financial instruments

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 - techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data

29 Fair values of financial instruments (continued)

Financial instruments and assets recorded at fair value

The following table shows an analysis of financial instruments and assets recorded at fair value by level of the fair value hierarchy:

31 December 2018	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	21,152	-	21,152
Forward contracts	-	62,469	-	62,469
Currency swaps	-	15	-	15
	-	83,636	-	83,636
Financial investments FVTPL				
Quoted investments				
Government debt securities	183,794	-	-	183,794
Other debt securities	7,175	-	-	7,175
Equities	-	-	-	-
Unquoted Investments				
Equities	-	-	-	-
	190,969	-	-	190,969
Financial investments FVOCI				
Quoted investments				
Government debt securities	1,569,670	-	-	1,569,670
Other debt securities	2,015,232	-	-	2,015,232
Equities	291	-	-	291
Unquoted Investments				
Equities	-	-	543	543
	3,585,193	-	543	3,585,736
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	18,592	-	18,592
Forward contracts	-	45,496	-	45,496
Currency options	-	-	-	-
	-	64,088	-	64,088

29 Fair values of financial instruments (continued)

Financial instruments and assets recorded at fair value (continued)

31 December 2017	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Available-for-sale investments				
Quoted				
Government debt securities	1,314,799	-	-	1,314,799
Other debt securities	1,874,450	-	-	1,874,450
Equities	8,824	-	-	8,824
Unquoted				
Equities	-	-	377	377
Total	3,198,073	-	377	3,198,450
Held for trading investments				
Quoted				
Other debt securities	196,497	-	-	196,497
Derivative assets				
Forward contracts	-	100,149	-	100.149
Interest rate swaps	-	10,562	-	10,562
Currency swaps	-	49	-	49
Total	-	110,760	-	110,760
Total financial assets	3,394,570	110,760	377	3,505,707
Derivative liabilities				
Forward contracts	-	74,168	-	74,168
Interest rate swaps	-	14,765	-	14,765
Currency options	-	15	-	15
Total financial liabilities	-	88,948	-	88,948

The following is a description of the determination of fair value for financial instruments and assets which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

29.1 Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency options and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

29.2 Financial investments

Financial investments valued using a valuation technique or pricing models primarily consist of unquoted equities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

29 Fair values of financial instruments (continued)

Financial instruments and assets recorded at fair value (continued)

29.3 Movements in level 3 financial instruments measured at fair value

During the year, the Bank has invested in unquoted shares of a company amounting to AED 301,000 which have been categorised as level 3. There was no other movement between the levels of financial instruments during the year (2017: AED Nil).

29.4 Gains or losses on level 3 financial instruments included in the profit or loss for the year:

No gains or losses on level 3 financial instruments were included in the profit or loss for the year (2017: AED Nil).

29.5 Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument is negligible.

29.6 Financial instruments not recorded at fair value

The fair values of financial instruments not recorded at fair value includes cash and balances with UAE Central Bank, due from other banks, loans and advances, other assets (excluding derivative assets), due to banks, customers' deposits and other liabilities (excluding derivative liabilities) that are categorised as level two based on market observable inputs. The fair values of financial instruments not recorded at fair value are not materially different to their carrying values.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

29.6.1 Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

29.6.2 Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit and maturity. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

30 Capital adequacy

The Bank actively manages the capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules / ratios") and adopted by the Central Bank of UAE in supervising the Bank.

30.1 Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholders' value.

The Bank manages its capital base and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital base, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

30 Capital adequacy (continued)

30.1 Capital management (continued)

The risk asset ratio calculations, in accordance with the capital adequacy guidelines as per Basel II and III established for the global banking industry, are as follows:

Risk weighted exposures	2018 AED'000	2017 AED'000
Credit Risk	**15,784,475**	16,045,234
Market Risk	**77,323**	35,796
Operational Risk	**1,416,305**	1,759,413
Total risk weighted exposures	**17,278,103**	17,840,443

Tier I and II Capital		
Tier I Capital	**2,528,867**	2,141,745
Tier II Capital	**197,306**	211,211
Capital Base	**2,726,173**	2,352,956

30.2 Capital Ratio:

Total regulatory capital as a percentage of total risk weighted assets	**15.8%**	13.2%
Total tier I regulatory capital as a percentage of total risk weighted assets	**14.6%**	12.0%

Regulatory capital consists mainly of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation less accrued dividends. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of UAE. The other component of regulatory capital is Tier 2 capital, which includes general provisions and cumulative changes in fair values.

The Bank has complied with all the requirements as set by the Central Bank of UAE in respect of capital adequacy.

31 Social contribution

Social contributions made during the year amount to AED 450,500 (2017: Nil).