Commercial Bank International P.S.C.

Reports and the consolidated financial statements for the year ended 31 December 2017

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

Commercial Bank International P.S.C.

Reports and the consolidated statement of financial statements for the year ended 31 December 2017

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Board of Directors' Report

The Board of Directors has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2017.

Incorporation and registered offices

Commercial Bank International P.S.C. (the "Bank") was incorporated under an Emiri Decree Number 5/91 on 28 April 1991 by His Highness Ruler of Ras Al-Khaimah. The address of the registered office is P.O. Box 793, Ras Al-Khaimah, United Arab Emirates.

Principal activities

The principal activities of the Bank are retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management and these activities are carried out through its branches in the United Arab Emirates.

Financial position and results

The financial position and results of the Group for the year ended 31 December 2017 are set out in the accompanying consolidated financial statements.

The Group has earned net interest income and income from Islamic financing and investing activities amounting AED 556,237 thousands during the year ended 31 December 2017 (2016: AED 506,972 thousands) and had recorded a net profit of AED 174,591 thousands for the year ended 31 December 2017 (2016: AED 125,065 thousands).

Directors

The following were the Directors of the Bank for the year ended 31 December 2017:

Chairman:	Mr. Mohammad Sultan Al Qadi
Vice Chairman:	Mr. Ali Ahmed Al Kuwari
Directors:	Mr. Adel Abdul Aziz Khashabi
	Mrs. Fareeda Ali Abu Al Fath
	Mr. Ahmad Majid Lootah
	Mr. Ali Rashid Al-Mohannadi
	Mr. Mohammad Ali Musabeh Al Nuaimi (elected in March 2017)
	Mr. Mubarak Bin Fahed (elected in March 2017)
	Mr. Abdulla Gaith Al Suwaidi (elected in March 2017)

Auditors

The consolidated financial statements for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers and, being eligible, offer themselves for reappointment.

By order of the Board of Directors

Mr. Mohammad Sultan Al Qadi
Chairman

04 February 2018

Independent auditor's report to the shareholders of Commercial Bank International P.S.C.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Commercial Bank International P.S.C. (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated 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 consolidated 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 Group 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 consolidated 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

This was the first year we were appointed as the auditor of the Group. As part of developing our knowledge for the 2017 audit, we met with the former auditors to understand the significant audit judgements they made as part of forming their audit opinion for the year ended 31 December 2016.

We also reviewed the audit working papers of the former auditor to assist in familiarising ourselves with the IT systems and controls on which they relied on for the purposes of issuing their opinion in addition to assisting us in understanding the evidence they obtained and the basis for the conclusions they reached in respect of key judgements.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated 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.

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Douglas O'Mahony, Paul Suddaby, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy

Our audit approach (continued)

The areas, in our professional judgement, that are of most significance to the audit (Key audit matters) and where we focused most effort were:

- Impairment of loans and advances to customers and Islamic financing and investing assets;
- Valuation and impairment of properties;
- Valuation of unquoted equity investments; and
- Disclosure of the likely impact of IFRS 9

An explanation of each of these Key audit matters and a summary of our audit approach are set out below.

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. In addition, as is common with all banks, the Group is highly dependent on technology due to the significant number of transactions that are processed daily. The audit approach relied extensively on automated controls, therefore, procedures were designed to test access and control over IT systems.

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

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Impairment of loans and advances to customers and Islamic financing and investing assets The Group has recognised impairment allowances in respect of loans and advances to customers and Islamic financing and investing assets. Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the balance sheet date. They are calculated on a collective basis for portfolios of loans of a similar nature and on an individual basis for watch list and non-performing loans. The calculation of both collective and individual impairment allowances is inherently judgemental.	We assessed and tested the design and operating effectiveness of the controls over impairment data and calculations to ensure compliance with IFRS. These controls included those over the internal credit rating of counterparty facilities, the identification of impaired loans and advances, the posting of model output to the general ledger and the calculation of the impairment provisions. In addition, we performed detailed testing on the models used to calculate both identified and unidentified impairment.

Independent auditor's report to the shareholders of Commercial Bank International P.S.C. (continued)

Our audit approach (continued)

Key audit matter	How our audit addressed the Key audit matter
***Impairment of loans and advances to customers and Islamic financing and investing assets** (continued)* As disclosed in note 7, as at 31 December 2017, the Group has recognised collective and specific impairment provisions for impairment of loans and advances of AED 486 million. Collective impairment allowances are used to recognise unidentified impairment. Collective impairment allowances are calculated for each identified portfolio and are based on historical experience, credit rating and expected migrations in addition to assessed inherent losses based on the economic and credit conditions on a portfolio of similar loans. The inputs to these models are subject to management judgement. For individual impairment allowances, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to that loan or Islamic financing and investing asset. We focused on this area because the Directors and management make subjective judgements over both the timing of recognition of impairment allowances and the estimation of the size of any impairment allowance required. Information on credit risk and the Group's credit risk management is provided in note 40. The use of estimates and judgements in respect of impairment of loans and advances and Islamic financing and investing assets is disclosed in note 4. Disclosure of the impairment allowance and net impairment charge are disclosed in notes 7 and 32 to the financial statements.	This testing included testing of the extraction of data used in the model, assessing the appropriateness of the assumptions used (including applying sensitivities) and re-performance of the impairment calculation. Where the models were designed to meet the UAE Central Bank requirements in respect of impairment allowances, we tested the reconciliation of the output of these models to the provisioning requirements under IFRS. Where impairment was individually calculated, we tested controls over the timely identification of potentially impaired loans. We also tested a sample of loans and advances to ascertain whether the loss event (the point at which impairment is recognised) had been identified in a timely manner. Where impairment had been identified, for a sample of loans we considered the latest developments in relation to the borrower and examined management's calculation of impairment. We verified the factors used in management's calculation against corroborative evidence such as collateral valuation reports and information regarding other sources of payment, challenging the assumptions made by management in determining the recoverability of the exposure and comparing estimates to external evidence, where available. We examined a sample of loans and advances, which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate including using external evidence in respect of the relevant counterparties. Where we formed a different view from that of management on certain specific provisions, the differences were assessed in the context of the overall level of provisioning, including the collective provision.

Our audit approach (continued)

Key audit matter	How our audit addressed the Key audit matter
Valuation and impairment of properties The Group holds several types of properties which are included in the consolidated statement of financial position. These are included within property inventory, investment properties and property and equipment. Properties classified as property inventory are carried at the lower of cost and net realisable value and amount to AED 562 million at 31 December 2017. Investment properties are carried at cost less accumulated depreciation and amount to AED 183 million at 31 December 2017. They are assessed for impairment when there are indicators of impairment at the end of each reporting period. Land and buildings of AED 101 million at 31 December 2017 are included in property and equipment and are stated at their revalued amounts. These are assessed for impairment when there are indicators of impairment at the end of each reporting period. Management involve external experts ("management's experts") to perform independent valuations of properties which are used to assess whether the carrying value of the property is to be impaired. The valuations are performed using a range of valuation methodologies such as the comparable method, residual land method valuation or by estimating the net present value by expected capital (sales) incomes deferred over estimated sales periods. We focused on this area because the Directors and management make subjective judgements over the extent of any impairment or revaluation required, based on the estimated fair value of properties. Details of property inventory, investment properties and properties included in property and equipment are provided in notes 10, 14 and 15 respectively, to the financial statements.	We tested the design and operating effectiveness of the Group's controls over the valuation and impairment of properties. These controls included the review of the independent valuation reports. We assessed the competency, objectivity and capabilities of management's experts and for a sample of valuations, we evaluated the adequacy and appropriateness of their work with the assistance of our valuation experts. The evaluation involved verifying the methodology and assumptions used by management's experts to perform the valuations, comparing them to external evidence (where available), and holding discussion with management's experts. Further, we assessed whether the models used and the methodologies employed by management's experts complied with the requirements of IFRS. We carried out procedures on a sample basis, to satisfy ourselves of the accuracy of the property information supplied to the valuers by management. We compared the carrying values of the properties to management's valuations to identify whether there is a decline in the recoverable amount to determine if impairment exists. . If impairment was identified, we calculated the impairment required as the difference between carrying value and recoverable amount and agreed the shortfall to impairment recognised by management in the general ledger.
Valuation of unquoted equity investments The Group has investments in level 3 unquoted equities and funds which are classified as financial assets measured at fair value through other comprehensive income.	We tested the design and operating effectiveness of the Group's controls over the valuation of unquoted equity investments. These controls included the review of the independent valuation reports.

Independent auditor's report to the shareholders of Commercial Bank International P.S.C. (continued)

Our audit approach (continued)

Key audit matter	How our audit addressed the Key audit matter
Valuation of unquoted equity investments *(continued)* These investments, amounting to AED 54 million at 31 December 2017, are disclosed in note 11 to the financial statements. Management determine the fair value of these investments by obtaining valuation reports from external fund managers or by involving external experts ("management's experts") to provide independent valuations of the investments based on the 'market approach' valuation technique as defined by IFRS 13. We focused on this area because the Directors and management make subjective judgements over the estimated fair value of unquoted investments.	We assessed the competency, objectivity and capabilities of management's experts and for a sample of valuations, evaluated the adequacy and appropriateness of their work with the assistance of our valuation expert. We did this by verifying the methodology and assumptions used by them to perform the valuations and compared them to external evidence (where available), and holding discussion with management's expert. Further, we assessed whether the methodologies employed by management's expert complied with the requirements of IFRS. We carried out procedures on a sample basis, to satisfy ourselves of the accuracy of the information supplied to the valuers by management. We compared the carrying values of the investments to management's valuations and agreed these to the general ledger.
Disclosure of the likely impact of IFRS 9 Our audit was focused on the disclosure of the impact of the implementation of IFRS 9 – Financial Instruments (IFRS 9), as this is a new and complex accounting standard, which has a material impact and has required considerable judgement and interpretation in its implementation. As disclosed in note 2.2, management has estimated that the first time adoption on 1 January 2018 of IFRS 9 will result in an increase in the loss allowance for financial assets held at amortised cost of approximately 40% to 45%. IFRS 9 introduces a new, forward looking, expected credit loss (ECL) impairment model. This takes into account reasonable and supportable forward-looking information which will generally result in earlier recognition of losses. There are a number of significant judgements which are required in measuring ECL under IFRS 9 including: • determining criteria for significant increase in credit risk (SICR); • factoring in future economic guidance; and • techniques used to determine the probability of default (PD) and loss given default (LGD).	We assessed and tested the design and operating effectiveness of the control that management has established in respect of model governance. We have used our modeling experts to test the modelling methodology for certain portfolios. In addition, our modeling experts performed substantive procedures over certain models which included assessing the reasonableness of key assumptions.

Our audit approach (continued)

Key audit matter	How our audit addressed the Key audit matter
Disclosure of the likely impact of IFRS 9 *(continued)* This has required new models to be built and implemented to measure the expected credit losses on loans measured at amortised cost. There is a large increase in the data inputs required by these models. This increases the risk of completeness and accuracy of the data that has been used to create assumptions and is used to operate the model.	We have tested the completeness and accuracy of the data used in calculation of the ECL. Further, we have independently validated the disclosures against the requirements of IFRS.

Other information

The directors are responsible for the other information. The other information comprises the Board of Directors' report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Bank's complete Annual Report which is expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this 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 Bank's complete Annual Report, if we conclude 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 consolidated financial statements

The board is responsible for the preparation and fair presentation of the consolidated 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 board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the boardt is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent auditor's report to the shareholders of Commercial Bank International P.S.C. (continued)

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Independent auditor's report to the shareholders of Commercial Bank International P.S.C. (continued)

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

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

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

(v) as disclosed in note 11 and note 13 to the consolidated financial statements, the Group has purchased and invested in shares during the financial year ended 31 December 2017;

(vi) note 34 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

(vii) note 31 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2017; and

(viii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2017 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 2017.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 were audited by another auditor, whose report dated 14 February 2017 expressed an unmodified audit opinion.

PricewaterhouseCoopers

4 February 2018

Jacques Fakhoury
Registered Auditor Number 379
Dubai, United Arab Emirates

Consolidated statement of financial position
As at 31 December

	Note	2017 AED '000	2016 AED '000
ASSETS			
Cash and balances with the Central Bank of the U.A.E.	5	**2,088,872**	2,561,366
Deposits and balances due from banks	6	**817,007**	624,846
Loans and advances to customers	7	**12,610,527**	13,024,470
Islamic financing and investing assets	8	**265,466**	248,832
Receivables and other assets	9	**3,029,543**	2,031,924
Property inventory	10	**561,594**	460,193
Financial assets measured at fair value	11	**72,169**	95,487
Other financial assets measured at amortised cost	12	**852,826**	933,565
Investment in associates	13	**53,477**	-
Investment properties	14	**182,630**	117,608
Intangible assets	15	**78,565**	8,704
Property and equipment	15	**130,458**	210,828
Total assets		**20,743,134**	20,317,823
EQUITY AND LIABILITIES			
EQUITY			
Share capital	16	**1,737,383**	1,737,383
Tier 1 Capital Securities	17	**459,125**	459,125
Statutory reserve	18	**235,123**	217,664
General reserve	18	**17,459**	142,952
Properties revaluation reserve	18	**72,950**	89,672
Investments revaluation reserve	18	**(39,706)**	(22,333)
Accumulated losses		**(14,984)**	(275,985)
Equity attributable to owners of the Bank		**2,467,350**	2,348,478
Non-controlling interests	19	**309**	340
Net equity		**2,467,659**	2,348,818
LIABILITIES			
Deposits and balances due to banks	20	**1,082,342**	1,742,844
Customers' deposits	21	**13,160,647**	13,662,465
Islamic customers' deposits	22	**893,092**	289,477
Payables and other liabilities	23	**3,139,394**	2,274,219
Total liabilities		**18,275,475**	17,969,005
Total equity and liabilities		**20,743,134**	20,317,823

Mark Timothy Robinson
Chief Executive Officer

Mohammad Sultan Al Qadi
Chairman

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

Consolidated income statement
For the year ended 31 December

	Note	2017 AED '000	2016 AED '000
Interest income	25	**845,941**	751,356
Income from Islamic financing and investing assets	26	**10,814**	5,842
Total interest income and income from Islamic financing and investing assets		**856,755**	757,198
Interest expense	27	**(280,168)**	(234,850)
Distribution to Islamic depositors	28	**(20,350)**	(15,376)
Net interest income and income from Islamic financing and investing assets		**556,237**	506,972
Fee and commission income	29	**259,333**	281,327
Fee and commission expense	29	**(27,589)**	(22,462)
Net fee and commission income		**231,744**	258,865
Other operating income, net	30	**77,651**	73,344
Net operating income		**865,632**	839,181
General and administrative expenses	31	**(454,345)**	(456,267)
Impairment losses and provisions, net	32	**(236,696)**	(257,849)
Profit for the year		**174,591**	125,065
Attributable to:			
Owners of the Bank		**174,622**	125,071
Non-controlling interests		**(31)**	(6)
Profit for the year		**174,591**	125,065
Basic and diluted earnings per share (AED)	33	**0.083**	0.055

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

Consolidated statement of comprehensive income
For the year ended 31 December

	2017 AED'000	2016 AED'000
Profit for the year	**174,591**	125,065
Other comprehensive loss		
Items that will not be reclassified subsequently to profit or loss:		
Changes in fair value of financial assets measured at fair value through other comprehensive income	**(17,373)**	(2,898)
Revaluation of properties	**(8,534)**	-
Other comprehensive loss for the year	**(25,907)**	(2,898)
Total comprehensive income for the year	**148,684**	122,167
Total comprehensive income attributable to:		
Owners of the Bank	**148,715**	122,173
Non-controlling interests	**(31)**	(6)
	148,684	122,167

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

Consolidated statement of changes in equity
For the year ended 31 December

	Share capital AED'000	Tier 1 Capital Securities AED'000	Statutory reserve AED'000	General reserve AED'000	Properties revaluation reserve AED'000	Investments revaluation reserve AED'000	Accumulated losses AED'000	Equity Attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
2017										
Balance at the beginning of the year	**1,737,383**	**459,125**	**217,664**	**142,952**	**89,672**	**(22,333)**	**(275,985)**	**2,348,478**	**340**	**2,348,818**
Profit for the year	-	-	-	-	-	-	**174,622**	**174,622**	**(31)**	**174,591**
Other comprehensive loss for the year	-	-	-	-	**(8,534)**	**(17,373)**	-	**(25,907)**	-	**(25,907)**
Total comprehensive income for the year	-	-	-	-	**(8,534)**	**(17,373)**	**174,622**	**148,715**	**(31)**	**148,684**
Transfer to statutory reserve	-	-	**17,459**	-	-	-	**(17,459)**	-	-	-
Transfer to general reserve	-	-	-	**17,459**	-	-	**(17,459)**	-	-	-
Depreciation of properties revaluation reserve	-	-	-	-	**(8,188)**	-	**8,188**	-	-	-
Transfer from general reserve to accumulated losses	-	-	-	**(142,952)**	-	-	**142,952**	-	-	-
Interest paid on Tier 1 Capital securities	-	-	-	-	-	-	**(29,843)**	**(29,843)**	-	**(29,843)**
Balance at the end of the year	**1,737,383**	**459,125**	**235,123**	**17,459**	**72,950**	**(39,706)**	**(14,984)**	**2,467,350**	**309**	**2,467,659**

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

Consolidated statement of changes in equity (continued)
For the year ended 31 December

	Share capital AED'000	Tier 1 Capital Securities AED'000	Statutory reserve AED'000	General reserve AED'000	Properties revaluation reserve AED'000	Investments revaluation reserve AED'000	Accumulated losses AED'000	Equity Attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
2016										
Balance at the beginning of the year	1,737,383	457,656	205,157	130,445	106,462	(19,435)	(352,842)	2,264,826	443	2,265,269
Profit for the year	-	-	-	-	-	-	125,071	125,071	(6)	125,065
Other comprehensive loss for the year	-	-	-	-	-	(2,898)	-	(2,898)	-	(2,898)
Total comprehensive income for the year	-	-	-	-	-	(2,898)	125,071	122,173	(6)	122,167
Transfer to statutory reserve	-	-	12,507	-	-	-	(12,507)	-	-	-
Transfer to general reserve	-	-	-	12,507	-	-	(12,507)	-	-	-
Depreciation of properties revaluation reserve	-	-	-	-	(8,190)	-	8,190	-	-	-
Transfer on disposal/ reclassification of properties	-	-	-	-	(8,600)	-	636	(7,964)	-	(7,964)
Transaction costs paid on issuance of Tier 1 Capital securities	-	1,469	-	-	-	-	(2,280)	(811)	-	(811)
Interest paid on Tier 1 Capital securities	-	-	-	-	-	-	(29,843)	(29,843)	-	(29,843)
Acquisition of non-controlling interest	-	-	-	-	-	-	97	97	(97)	-
Balance at the end of the year	1,737,383	459,125	217,664	142,952	89,672	(22,333)	(275,985)	2,348,478	340	2,348,818

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

Consolidated statement of cash flows
For the year ended 31 December

	2017 AED'000	2016 AED'000
Cash flows from operating activities		
Profit for the year	**174,591**	125,065
Adjustments for:		
Depreciation of property and equipment	**36,944**	29,966
Depreciation of investment property	**4,905**	5,300
Impairment of financial assets, net	**223,646**	254,528
Impairment of non-financial assets	**13,050**	3,321
Write-off of property and equipment	**3,879**	100
Gain on disposal of property and equipment	**(90)**	(89)
Gain on disposal of investment properties	**(2,096)**	(3,821)
Amortisation of financial assets measured at amortised cost	**946**	565
Gain on disposal of financial assets measured at amortised cost	**(7,847)**	(6,301)
Gain on financial assets measured at FVTPL	**(190)**	(2,326)
Dividend income	**(804)**	(804)
Provision for end of service benefits	**7,969**	8,191
	454,903	413,695
Changes in operating assets and liabilities:		
Decrease/(increase) in balances with the Central Bank of the U.A.E.	**760,111**	(786,265)
Increase in loans and advances to customers	**(183,355)**	(1,946,843)
Increase in Islamic financing and investing assets	**(16,634)**	(77,004)
Decrease in property inventory	**6,624**	13,252
Increase in receivables and other assets	**(889,397)**	(1,065,818)
Decrease in deposits and balances due to banks	**(660,502)**	(186,076)
(Decrease)/increase in customers' deposits	**(501,818)**	2,571,444
Increase in Islamic customers' deposits	**603,615**	275,225
Increase in payables and other liabilities	**865,348**	1,097,207
Cash generated from operating activities	**438,895**	308,817
End of service benefits paid	**(8,142)**	(8,787)
Net cash generated from operating activities	**430,753**	300,030
Cash flows from investing activities		
Purchase of property and equipment	**(38,875)**	(53,155)
Purchase of financial assets measured at amortised cost	**(619,869)**	(580,752)
Proceeds from sale of property and equipment	**117**	4,396
Proceeds from sale of investment properties	**23,237**	5,250
Proceeds from sale/redemption of financial assets measured at amortised cost	**707,509**	301,847
Proceeds from disposal of financial assets measured at FVTOCI	**5,945**	-
Dividend received	**804**	804
Net cash generated from/(used in) investing activities	**78,868**	(321,610)

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

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

	2017 AED'000	2016 AED'000
Cash flows from financing activities		
Interest paid on Tier 1 Capital securities	**(29,843)**	(29,843)
Transaction cost paid on issuance of Tier 1 Capital	**-**	(811)
Net cash used in financing activities	**(29,843)**	(30,654)
Net increase/(decrease) in cash and cash equivalents	**479,778**	(52,234)
Cash and cash equivalents, beginning of the year	**1,507,811**	1,560,045
Cash and cash equivalents, end of year (note 24)	**1,987,589**	1,507,811
Operational cash flows from interest		
Interest received	**806,246**	744,477
Profit received	**10,558**	7,170
Interest paid	**(280,273)**	(171,423)
Profit paid	**(17,572)**	(11,127)
Non-cash transactions		
Repossession of properties from loan and advances to property inventory	**114,286**	1,940
Repossession of properties from loan and advances to investment properties	**95,857**	-
Repossession of equity investment from loan and advances to investments in associates	**53,477**	-
Transfer from property and equipment to investment property	**-**	25,800

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

Notes to the consolidated financial statements For the year ended 31 December 2017

1. Status and activities

Commercial Bank International P.S.C. (the "Bank") is a public shareholding company with limited liability incorporated under an Emiri Decree Number 5/91 on 28 April 1991 by His Highness Ruler of Ras Al-Khaimah. The registered office of the Bank is at P.O. Box 793, Ras Al-Khaimah. The Bank is listed on the Abu Dhabi Exchange (Ticker "CBI"). The Bank carries on commercial banking activities through its branches in the United Arab Emirates ("U.A.E.").

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries as disclosed below (collectively referred to as the "Group").

Details of the Group's subsidiaries at the end of reporting period is as follows:

Name	*Principal activity*	*Place of incorporation*	*% of ownership 2017*	*2016*
International Financial Brokerage L.L.C. *	Brokerage	Dubai - U.A.E.	**99.4%**	99.4%
Takamul Real Estate L.L.C.	Real estate	Dubai - U.A.E.	**100.0%**	100.0%

** under liquidation*

2. Application of new and revised International Financial Reporting Standards ("IFRS")

2.1 New and revised IFRS applied with no material effect on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these consolidated financial statements. The application of these new and revised IFRS have not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 7 *Statement of cash flow* clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

- Amendments to IAS 12 relating to recognition of deferred tax assets for unrealised losses.

- Annual Improvements to IFRSs 2014 - 2016 Cycle – Amendments to IFRS 12 *Disclosure of Interests in Other Entities*.

2. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.2 New and revised IFRS in issue but not yet effective and not early adopted

The Group has not yet early applied the following new standard, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRS	Effective for annual periods beginning on or after
• Finalised version of IFRS 9 [IFRS 9 *Financial Instruments* (2014)] was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.	1 January 2018

- **Impairment**: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.
- **Hedge accounting**: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition**: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

- The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses. Based on the assessments undertaken to date, the Group expects an increase in the loss allowance for its financial assets held at amortised cost by approximately 40 to 45%.

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

2. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

New and revised IFRS	Effective for annual periods beginning on or after
➢ The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The estimated impact of adopting IFRS 9 is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change as the Group will continue to refine its model assumptions, governance framework and estimation techniques employed leading up to 31 March 2018 reporting.	
• Amendments to IFRS 2 *Share Based Payments* regarding classification and measurement of share based payment transactions.	1 January 2018
• Amendments to IFRS 4 *Insurance Contracts* relating to different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contract standard.	1 January 2018
• IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018
• IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: ➢ there is consideration that is denominated or priced in a foreign currency; ➢ the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and ➢ the prepayment asset or deferred income liability is non-monetary.	1 January 2018

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

2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

New and revised IFRS	Effective for annual periods beginning on or after
• Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
• Annual Improvements to IFRSs 2014 - 2016 Cycle – Amendments to IFRS 1 *First Time Adoption of International Financial Reporting Standards* and IAS 28 *Investment in Associates and Joint Ventures*.	1 January 2018
• IFRS 16 *Leases* provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.	1 January 2019
• Amendments to IAS 28 *Investment in Associates and Joint Ventures* regarding long-term interests in associates and joint ventures.	1 January 2019
• IFRIC 23 *Uncertainty over Income Tax Treatments*: IFRIC 23 clarifies the accounting for uncertainties in income taxes.	1 January 2019
• IFRS 17 *Insurance Contracts* establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.	1 January 2021
• Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

3.2 Basis of prepration

The consolidated financial statements have been prepared on the historical cost basis, except for items which are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted in the preperation of the Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has:

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

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

The financial statements of subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

All significant intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Losses applicable to the non-controlling interests in excess of the non-controlling shareholders' interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

3.4 Property and equipment

Land and buildings held for use are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in consolidated income statement, in which case the increase is credited to consolidated income statement to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in consolidated income statement to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to consolidated income statement. Revaluation surplus is transferred to retained earnings as the asset is used by the Group. The amount of the surplus transferred is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. On the subsequent sale or retirement of a revalued property, related revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated. Buildings are depreciated over a period of 25 years.

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

3. Significant accounting policies (continued)

3.4 Property and equipment (continued)

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

Capital work in progress is carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of assets, other than land and capital work in progress, using the straight-line method, over the estimated useful lives of the respective assets.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Leasehold improvements	4 - 7 years
Furniture, fixtures, equipments and vehicles	4 years
Information technology assets	4 - 10 years

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

3.5 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated so as to write off the cost of investment properties using straight line method over their estimated useful lives of 25 years.

Investment properties are accounted for as acquisitions on the date when ownership passes to the Group under the contract for the purchase of the relevant property, pending which event payments in respect of investment property acquisitions are included in ‘receivable and other assets’.

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

3. Significant accounting policies (continued)

3.6 Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.7 Property inventory

Properties acquired or constructed with the intention of sale are classified as property inventory. These are stated at the lower of cost and net realisable value. Cost includes transaction costs incurred in respect of the acquisition of those properties. Net realisable value represents the estimated selling price for property inventory less all estimated costs necessary to make the sale. Properties acquired through repossession in settlement of loans and advances are recorded at fair value at the date of repossession including transactions costs incurred in respect of such repossession.

3.8 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including interest rate swaps and foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 39.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in consolidated income statement immediately.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability.

3. Significant accounting policies (continued)

3.9 Provisions

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

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

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

3.10 Financial instruments

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

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

3.10.1Financial assets

Financial assets are classified into the following specified categories: ‘financial assets measured at fair value through other comprehensive income’, ‘financial assets measured at fair value through profit or loss’, and ‘financial assets measured at amortised cost’. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income. Designation at fair value through other comprehensive income is not permitted if the equity investment is held for trading.

3. Significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.1Financial assets (continued)

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

A financial asset is held for trading if:

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

Investments in equity instruments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Fair value is determined in the manner described in note 38.

Dividends on these investments in equity instruments are recognised in consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue*. Dividends earned are recognised in consolidated income statement and are included in the 'other operating income' line item.

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

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (see above).

Debt instrument financial assets that do not meet the amortised cost criteria described below, or that meet the criteria but the Group has irrevocably chosen to designate as at fair value through profit or loss at initial recognition, are measured at fair value through profit or loss. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in consolidated income statement and is included within 'other operating income' line tem. Fair value is determined in the manner described in note 38.

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.1 Financial assets (continued)

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

Interest income on debt instruments as at FVTPL is included in the 'other operating income' line item in the consolidated income statement.

Dividend income on investments in equity instruments at fair value through profit or loss is recognised in consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue* and is included in the 'other operating income' described above.

Financial assets at amortised cost

Debt instruments are subsequently measured at amortised cost less impairment loss if both of the following conditions are met:

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

All other financial assets are subsequently measured at fair value.

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at fair value through profit or loss - see above) and are subsequently measured at amortised cost using the effective interest method less any impairment (see below), with interest revenue recognised on an effective yield basis in interest income.

The Group may, at initial recognition, irrevocably designate a debt instrument that meets amortised cost criteria above as measured at fair value through profit or loss if doing so eliminates or significantly reduces accounting mismatch that would otherwise arise from measuring financial asset at amortised cost.

Subsequent to initial recognition, the Group is required to reclassify debt instrument from amortised cost to fair value through profit or loss, if the objective of the instrument changes so that the amortised cost criteria is no longer met.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. Significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.1 Financial assets (continued)

Foreign exchange gains and losses

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

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

For foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the 'other operating income' line item in the consolidated income statement.

Reclassification of financial assets

The financial assets are required to be reclassified if the objective of the Group's business model for managing those financial assets changes. Such changes are expected to be very infrequent. The Group determines these changes by the Group's Board of Directors as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties.

If the Group reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. Any previously recognised gains, losses or interest are not required to be restated.

If the Group reclassifies a financial asset so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in consolidated income statement.

If the Group reclassifies a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

The reclassification day is the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

3. Significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.1 Financial assets (continued)

Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Objective evidence of impairment could include:

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loan and advances to customers, where the carrying amount is reduced through the use of an allowance account. When loan or advance to customers is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in consolidated income statement.

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

The Group assesses whether objective evidence of impairment exists for loans and advances that are individually significant, and collectively for loans and advances that are not individually significant as follows:

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.1 Financial assets (continued)

<u>*Impairment of financial assets*</u> *(continued)*

(i) Individually assessed loans

Represent mainly, corporate loans which are assessed individually by Credit Risk Unit in order to determine whether there exists any objective evidence that a loan is impaired.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price, if available, or at the fair value of the collateral if the recovery is entirely collateral dependent.

Impairment loss is calculated as the difference between the loans' carrying value and its present value calculated as above.

The calculation of the present value of the estimated cash flows of collateralised loans and advances reflect the cash flows that may result from foreclosure less costs for obtaining and selling the collateral whether or not foreclosure is probable.

(ii) Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

a) Performing commercial and other loans
b) Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant.

(a) Performing commercial and other loans

Where individually assessed loans are evaluated and no evidence of loss is present or has been identified, there may be losses based upon risk rating and expected migrations, product or industry characteristics.

Impairment covers losses which may arise from individual performing loans that are impaired at the reporting date but were not specifically identified as such until sometime in the future.

The estimated impairment is calculated by the Group's management for each identified portfolio and based on historical experience, credit rating and expected migrations in addition to the assessed inherent losses which are reflected by the economic and credit conditions and taking into account the requirements of the Central Bank of the U.A.E.

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.1 Financial assets (continued)

Impairment of financial assets (continued)

(b) *Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant*

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and a provision of 50% of loan balance is made when is past due by more than 120 days. All loans that are past due by more than 180 days are fully provided for, net of collaterals held. This approach is in line with the requirements of the Central Bank of the U.A.E.

Derecognition of financial assets

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

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

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

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, unrestricted balances held with central banks and amounts due from banks on demand or with an original maturity of 90 days or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Group in the management of its short term commitments.

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

3. Significant accounting policies (continued)

3.11 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Financial liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Derivative financial liabilities are classified as 'financial liabilities at FVTPL'. Financial liabilities at FVTPL are stated at fair value. Any gain or loss arising on re-measurement are recognised in consolidated income statement immediately.

Financial liabilities subsequently measured at amortised cost

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

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

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the 'other operating income' line item in the consolidated income statement.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in the consolidated income statement.

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.11 Financial liabilities and equity instruments (continued)

Derecognition of financial liabilities

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

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Employees' end of service indemnity

Provision is made for estimated amounts required to cover employees' end of service indemnity at the end of reporting period as per U.A.E. Labour Law. In the opinion of management, the provision would not have been materially different had it been calculated on an actuarial basis.

Defined contribution plan

U.A.E. national employees in the United Arab Emirates are members of the Government-managed retirement pension and social security benefit scheme. As per Federal Labour Law No. 7 of 1999, the Group is required to contribute 15% of the "contribution calculation salary" of U.A.E. payroll costs to the retirement benefit scheme to fund the benefits. The employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the consolidated income statement.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

3. Significant accounting policies (continued)

3.11 Financial liabilities and equity instruments (continued)

Financial guarantee contracts (continued)

Financial guarantee contracts issued by the Group are initially measured at their fair values and the initial fair value is amortised over the life of the guarantee. These are subsequently measured at the higher of:

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

3.12 Renegotiated loans

Where possible, the Group 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 any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans remain in the same credit risk grade independent of satisfactory performance after restructuring. Management continuously 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.

3.13 Incurred but not yet identified

Individually assessed financial assets carried at amortised cost for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or loans and advances assets rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group may have incurred as a result of events occurring before the end of reporting period, which the Group is not able to identify on an individual basis, but that can be reliably estimated. As soon as information becomes available which identifies losses on individual financial assets within the group of the customer, those financial assets are removed from the group of the customer and assessed on an individual basis for impairment.

3.14 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and expense

Interest income and expense for all interest bearing financial instruments, except for financial assets measured at FVTPL, are recognised using the effective interest rate, which is the rate that exactly 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 on initial recognition. When there is doubt in the collection of the principal or the interest, the recognition of interest income ceases. Interest income from financial assets measured at FVTPL is recognised on accrual basis.

3. Significant accounting policies (continued)

3.14 Revenue recognition (continued)

Income from Isalmic financing and investing assets

The Group's policy for recognition of income from Islamic financing and investing assets is described in note 3.20.

Fee and commission income

Fee and commission income are generally accounted for on an accrual basis when the related services are performed.

Dividend income

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Rental income

The Group's policy for recognition of revenue from operating leases is described in 3.15 below.

Revenue from the sale of properties

Revenue from the sale of properties shall be recognised when the equitable interest in a property vests in a buyer and all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the properties;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.15 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

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

3. Significant accounting policies (continued)

3.15 Leasing (continued)

The Group as lessee

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

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

3.16 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Refer to note 36 on business segment reporting.

3.17 Acceptances

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

3.18 Investment in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

3. Significant accounting policies (continued)

3.18 Investment in associates (continued)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of International Financial Reporting Stndards are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group’s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

3. Significant accounting policies (continued)

3.19 Foreign currencies

The individual financial statements of each group entity are presented in U.A.E. Dirham (AED), which is the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in AED, which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

Transaction in currencies other than the Group's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in consolidated statement of income in the period in which they arise.

3.20 Islamic financing and investing products

In addition to conventional banking products, the Group during the year started offering its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.

All Islamic banking products are accounted for in conformity with the accounting policies described below:

3.20.1 Definitions

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

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

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

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

3. Significant accounting policies (continued)

3.20 Islamic financing and investing products (continued)

3.20.1 Definitions (continued)

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

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value or as a gift by a separate sale or gift contract at the end of the lease period.

Wakala
An agreement between two parties whereby one party is a fund provider (the “Muwakkil”) who provides a certain amount of money (the “Wakala Capital”) to an agent (the “Wakeel”), who invests the Wakala Capital in a Sharia’a compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel. The Wakeel is entitled to a fixed fee (the “Wakala Fee”) as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, wakala profit is distributed on declaration/distribution by the Wakeel.

The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement the Group may act either as Muwakkil or as Wakeel, as the case may be.

3.20.2 Accounting policy

Islamic financing and investing products are initially measured at fair value and subsequently measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income. Islamic financing and investing products are measured at amortised cost if cost of the following conditions are met:

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

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

3. Significant accounting policies (continued)

3.20 Islamic financing and investing products (continued)

3.20.2 Accounting policy (continued)

Allowance for impairment is made against Islamic financing and investing products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.10.1). Islamic financing and investing products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

Income from Islamic financing and investing assets are recognised in the consolidated income statement using the effective profit method.

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

Murabaha
Murabaha income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Ijara Munttahiya Bittamleek
Ijarah income is recognised on effective profit rate basis over the lease term.

Wakala
Estimated income/expense from Wakala is recognised on an accrual basis over the period, adjusted by actual income/expense when received/paid. Losses are accounted for on the date of declaration by the agent.

3.20.3 Islamic customers' deposits and distributions to depositors

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

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

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

4.1 Classification and measurement of financial assets

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

4.2 Leasehold improvements

Management determined the estimated useful life and related depreciation charges for its leasehold improvements. This estimate is based on an assumption that the Group will renew its annual lease over the estimated useful life. It could change significantly should the annual lease not be renewed. Management will increase the depreciation charge where useful life is less than previously estimated life.

4.3 Fair value measurements and valuation processes

Certain assets and liabilities are measured at fair value for financial reporting purposes. The management determines the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified independent valuers to perform the valuation. Management works closely with the qualified independent valuers to establish the appropriate valuation techniques and inputs to the model. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in notes 10, 14, 15 and 38.

4.4 Impairment of financial assets measured at amortised cost

The Group's accounting policy for allowances in relation to impaired financial assets measured at amortised cost is described in note 3. Impairment is calculated on the basis of discounted estimated future cash flows or by applying a certain percentage on the performing unclassified loan based on market trend and historical pattern of defaults. For retail loans and advances impairment is calculated based on a formulaic approach depending on past due instalments and payments.

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

4.4 Impairment of financial assets measured at amortised cost (continued)

The allowance for loan losses is established through charges to income in the form of an allowance for loan loss. Increases and decreases in the allowance due to changes in the measurement of the impaired loans are included in the allowance for loan losses and affect the consolidated income statement accordingly.

4.5 Individually assessed loans

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

The Group reviews its individually assessed loans at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating the cash flow, the Group makes judgments about:

1. The customer's aggregate borrowings.
2. The customer's risk rating, i.e. ability to perform profitable business and generate sufficient cash to repay the borrowed amount.
3. The value of the collateral and the probability of successful repossession.
4. The cost involved to recover the debts.

The Group's policy requires regular review of the level of impairment allowances on individual facilities.

Impaired loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

4.6 Collectively assessed loans

Collectively assessed allowances are made in respect of losses incurred in portfolios of retail loans with common features and where individual loan amounts are not significant.

The management of the Bank assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans which may be impaired but not identified at the end of the reporting period.

These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly based on the judgement of management and guidance received from the Central Bank of the U.A.E.

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

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

4.7 Property and equipment and investment properties

Property and equipment and investment properties are depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

4.8 Impairment of property and equipment and investment properties

The Group determines at each reporting date whether there is any objective evidence that the property and equipment and investment properties are impaired. The management estimates the market value of properties based on the current market conditions and comparative transactions conducted by the Group. Whenever the carrying amount of any property exceeds its recoverable amount, an impairment loss is recognised in profit or loss.

5. Cash and balances with the Central Bank of the U.A.E.

	2017 AED '000	2016 AED '000
Cash on hand	**213,055**	155,359
Balances with the Central Bank of the U.A.E.:		
Current account	**257,527**	127,606
Statutory cash ratio requirements	**718,290**	678,401
Certificates of deposit	**900,000**	1,600,000
	2,088,872	2,561,366

Statutory cash ratio requirements with the Central Bank of the U.A.E. represent mandatory reserve deposits and are not available for use in the Group's day-to-day operations. Cash on hand and current accounts and other balances are non-interest bearing. Certificates of deposit carry interest rates ranging between 0.97% and 1.25% (2016: 0.50% - 1.00%) per annum.

6. Deposits and balances due from banks

	2017 AED '000	2016 AED '000
Demand and call deposits	**244,727**	614,759
Term deposits	**517,280**	10,087
Islamic investment deposits	**55,000**	-
	817,007	624,846

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

6. Deposits and balances due from banks (continued)

The geographical analysis of deposits and balances due from banks is as follows:

	2017 AED '000	2016 AED '000
Within the U.A.E.	**388,640**	-
Outside the U.A.E.	**428,367**	624,846
	817,007	624,846

7. Loans and advances to customers

	2017 AED '000	2016 AED '000
Loans	**10,867,794**	10,531,196
Trust receipts	**676,987**	1,726,577
Overdrafts	**1,135,542**	1,088,514
Bills discounted	**260,488**	451,356
Credit cards	**155,761**	99,258
	13,096,572	13,896,901
Less: Allowance for impairment	**(486,045)**	(872,431)
	12,610,527	13,024,470

The geographical analysis of gross loans and advances to customers is as follows:

	2017 AED '000	2016 AED '000
Within the U.A.E.	**12,073,284**	12,636,492
Outside the U.A.E.	**1,023,228**	1,260,409
	13,096,572	13,896,901

(a) The movements in the allowance for impairment of loans and advances to customers during the year were as follows:

	2017 AED '000	2016 AED '000
Balance at the beginning of the year	**872,431**	800,067
Impairment allowance for the year	**504,622**	454,499
Interest suspended during the year	**47,110**	57,459
Amounts written off during the year	**(748,352)**	(341,754)
Impairment allowance reversal during the year	**(189,766)**	(97,840)
Balance at the end of the year	**486,045**	872,431

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

7. Loans and advances to customers (continued)

	2017 AED '000	2016 AED
Individual impairment and interest in suspense	**254,289**	635,477
Collective impairment	**231,756**	236,954
	486,045	872,431

(b) Analysis of gross loans and advances to customers by class:

	2017 AED '000	2016 AED '000
Corporate lending	**8,790,400**	9,441,554
Retail lending	**4,306,172**	4,455,347
	13,096,572	13,896,901

(c) Analysis of gross loans and advances to customers by economic activities:

	2017 AED '000	2016 AED '000
Services	**2,844,646**	2,543,779
Wholesale and retail trade	**2,023,924**	2,373,154
Construction	**1,187,446**	1,155,328
Retail lending	**2,859,180**	2,915,810
Real estate	**2,542,416**	2,981,651
Manufacturing	**661,261**	655,185
Government	**-**	184,111
Transport and communication	**948,261**	1,059,573
Financial institutions	**29,438**	28,310
	13,096,572	13,896,901

8. Islamic financing and investing assets

	2017 AED '000	2016 AED '000
Murabaha	**243,461**	226,517
Ijarah Munttahiya Bittamleek	**30,141**	30,081
Tawarruq	**153**	-
	273,755	256,598
Less: Deferred income	**(8,289)**	(7,766)
	265,466	248,832

All Islamic financing and investing assets are within the U.A.E. and represent corporate lending.

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

8. Islamic financing and investing assets (continued)

Analysis of Islamic financing and investing assets by economic activities:

	2017 AED '000	2016 AED '000
Services	**36,975**	7,019
Wholesale and retail trade	**65**	-
Construction	**5,623**	-
Real estate	**1,871**	-
Manufacturing	**75,858**	30,081
Transport and communication	**145,074**	211,732
	265,466	248,832

9. Receivables and other assets

	2017 AED '000	2016 AED '000
Interest receivable	**9,691**	11,857
Prepayments	**17,182**	21,541
Positive fair value of derivative financial instruments	**20,761**	7,935
Customer acceptances	**2,752,242**	1,896,143
Advances to acquire properties (i)	**38,802**	40,802
Other	**190,863**	53,646
	3,029,543	2,031,924

i) Advances to acquire properties are stated at net of impairment of AED 26.5 million (2016: AED 24.5 million).

10. Property inventory

	2017 AED '000	2016 AED '000
Real estate properties	**561,594**	460,193

The property inventory comprises real estate properties held by the Group for the purpose of sale in the ordinary course of business and is carried at lower of cost or net realisable value.

The net realisable value of the Group's property inventory as at 31 December 2017 and 31 December 2016 has been arrived at on the basis of a valuation carried out on the respective dates by independent valuers not related to the Group. Independent valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The net realisable value was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

10. Property inventory (continued)

The movements in property inventory during the year were as follows:

	2017 AED '000	2016 AED '000
Balance at the beginning of the year	**460,193**	443,457
Additions during the year	**-**	1,940
Transfers to property inventory	**114,286**	28,048
Net realisable value adjustment during the year	**(6,261)**	-
Sold during the year	**(6,624)**	(13,252)
Balance at the end of the year	**561,594**	460,193

All property inventories are within the U.A.E.

11. Financial assets measured at fair value

(a) Financial assets measured at FVTOCI

	2017 AED '000	2016 AED '000
Investment in quoted shares	**17,692**	18,899
Investment in unquoted shares	**50,921**	70,696
Investment in unquoted investment funds	**3,556**	5,892
	72,169	95,487

(b) Financial assets measured at fair value by geographic concentration are as follows:

	2017 AED '000	2016 AED '000
- Within the U.A.E.	**61,206**	69,712
- Outside the U.A.E.	**10,963**	25,775
	72,169	95,487

(c) The analysis of financial assets measured at fair value by industry sector is as follows:

	2017 AED '000	2016 AED '000
Financial Institutions	**68,613**	89,595
Commercial and Business	**3,556**	5,892
	72,169	95,487

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

12. Other financial assets measured at amortised cost

	2017 AED '000	2016 AED '000
Investment in debt instruments	**852,826**	933,565

The Group holds these bonds with an average yield of 3% to 7% per annum (2016: 3% to 6% per annum). The bonds are redeemable at par on various maturity dates from 2020 to 2027 (2016: 2017 to 2026).

(a) Other financial assets measured at amortised cost by geographic concentration are as follows:

	2017 AED '000	2016 AED '000
- Within the U.A.E.	**209,143**	380,139
- Outside the U.A.E.	**643,683**	553,426
	852,826	933,565

(b) The analysis of other financial assets measured at amortised cost by industry sector is as follows:

	2017 AED '000	2016 AED '000
Government and Public Sector	**852,826**	896,657
Financial Institutions	**-**	36,908
	852,826	933,565

(c) The other financial assets held at amortised cost include debt securities aggregating to AED 216.4 million [fair value of AED 212.6 million] (2016: AED 555.4 [fair value of AED 550.9 million]) which were collateralised against borrowings under repurchase agreements with banks ("Repo") (Note 20).

13. Investment in associates

(a) Details of each of the Group's associates at the end of the reporting period are as follows:

Name	*Principal activity*	*Place of incorporation*	*% of ownership 2017*	*2016*
Al Caribi Developments Limited	Real estate development	British Virgin Islands	**46.0%**	-
Arzaq Holdings (Private J.S.C.)	Real estate	Dubai - U.A.E.	**41.0%**	-

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

13. Investment in associates (continued)

These associates are accounted for using the equity method in these consolidated financial statements.

Pursuant to a shareholder agreement, the Bank has the right to cast 46% of the votes at shareholder meetings of Al Caribi Developments Limited and 41% of the votes at shareholder meetings of Arzaq Holdings (Private J.S.C.).

(b) Summarised financial information in respect the Group's associates at the end of reporting period is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRS.

	Current assets AED'000	Non-current assets AED'000	Current liabilities AED'000	Non-current liabilities AED'000
31 December 2017				
Al Caribi Developments Limited	**384**	**121,730**	**73**	**11,823**
Arzaq Holdings (Private J.S.C.)	**871**	**160,200**	**17,765**	**111,801**

(c) Reconciliation of the above summarised financial information to the carrying amount of the interest in Al Caribi Developments Limited and Arzaq Holdings (Private J.S.C.) recognised in the consolidated financial statements:

	Al Caribi Developments Limited	Arzaq Holdings (Private J.S.C.)
Net assets of associates (AED '000)	**110,218**	**31,505**
Non-controlling interest in associate(AED '000)	**(22,044)**	**-**
Net assets attributable to owners of associate (AED '000)	**88,174**	**31,505**
Proportion of ownership	**46%**	**41%**
Carrying amount of investment in associates (AED '000)	**40,560**	**12,917**

Notes to the consolidated financial statements For the year ended 31 December 2017 (continued)

14. Investment properties

	2017 AED '000	2016 AED '000
Cost		
Balance at the beginning of the year	**145,082**	129,374
Transfer from property and equipment (net of revaluation surplus)	**-**	17,836
Repossessed collateral against loans and advances	**95,857**	-
Disposals	**(31,811)**	(2,128)
Balance at the end of the year	**209,128**	145,082
Accumulated depreciation and impairment		
Balance at the beginning of the year	**27,474**	22,873
Depreciation charge for the year	**4,905**	5,300
Impairment during the year	**4,789**	-
Eliminated on disposals	**(10,670)**	(699)
Balance at the end of the year	**26,498**	27,474
Carrying value		
Balance at the end of the year	**182,630**	117,608

Fair value of investment properties

The fair value of the Group's investment property as at 31 December 2017 and 31 December 2016 has been arrived at on the basis of a valuation carried out on the respective dates by independent valuers not related to the Group. Independent valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on a present value calculation of the estimated future cash flow model supported by existing lease and current market rents for similar properties at the same locations. The interest rate, which is used to discount the future cash flows, reflects current market assessments of the uncertainty and timing of the cash flows.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2017 and 31 December 2016 are as follows:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Fair value AED'000
31 December 2017				
Investment properties	**-**	**-**	**197,243**	**197,243**
31 December 2016				
Investment properties	-	-	131,170	131,170

All investment properties are within the U.A.E. During the year the Group recognised rental income of AED 5.43 million (2016: AED 4.77 million) from investment properties and is included in other operating income in note 30. The group also incurred AED 0.58 million (2016: AED 1.16 million) operating expenses from investment property that generated rental income during the year.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

15. Property and equipment

	Freehold land AED'000	Buildings AED'000	Leasehold improvements AED'000	Furniture, fixtures, equipment and vehicles AED'000	Information technology assets AED'000	Capital work in progress AED'000	Total AED'000
Cost or revalued amount							
At 1 January 2016	50,896	120,777	31,655	9,995	51,309	14,595	279,227
Additions	-	-	1,613	1,208	1,869	48,465	53,155
Written off	-	-	(260)	-	-	-	(260)
Disposals	(3,096)	(1,204)	-	(597)	(9)	-	(4,906)
Transfer	(25,800)	-	8,365	903	3,151	(12,419)	(25,800)
At 31 December 2016	22,000	119,573	41,373	11,509	56,320	50,641	301,416
Revaluations	34,225	(72,931)	-	-	-	-	(38,706)
Additions	-	-	-	58	2,716	36,101	38,875
Written off	-	-	(11,650)	(2,475)	(4,547)	-	(18,672)
Disposals	-	-	-	(571)	(57)	-	(628)
Transfer	-	-	284	-	79,707	(79,991)	-
At 31 December 2017	**56,225**	**46,642**	**30,007**	**8,521**	**134,139**	**6,751**	**282,285**
Accumulated depreciation and accumulated impairment							
At 1 January 2016	-	12,359	12,502	5,676	21,313	-	51,850
Charge for the year	-	9,715	7,105	1,767	11,379	-	29,966
Impairment during the year	-	-	827	-	-	-	827
Written off	-	-	(160)	-	-	-	(160)
Disposals	-	-	-	(591)	(8)	-	(599)
At 31 December 2016	-	22,074	20,274	6,852	32,684	-	81,884
Revaluations	-	(30,172)	-	-	-	-	(30,712)
Charge for the year	-	9,714	7,527	1,887	17,816	-	36,944
Impairment during the year	-	-	-	-	-	-	-
Written off	-	-	(7,897)	(2,427)	(4,469)	-	(14,793)
Disposals	-	-	-	(552)	(49)	-	(601)
At 31 December 2017	**-**	**1,616**	**19,904**	**5,760**	**45,982**	**-**	**73,262**
Carrying amount							
At 31 December 2017	**56,225**	**45,026**	**10,103**	**2,761**	**88,157**	**6,751**	**209,023**
At 31 December 2016	22,000	97,499	21,099	4,657	23,636	50,641	219,532

15. Property and equipment (continued)

The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's freehold land and buildings as at 31 December 2017 were performed by independent valuers not related to the Group. The valuers have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations.

The fair value of the freehold land was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The fair value of the buildings was determined based on a present value calculation of the estimated future cash flow model supported by existing lease and current market rents for similar properties in the same location. The interest rate, which is used to discount the future cash flows, reflects current market assessments of the uncertainty and timing of the cash flows.

Details of the Group's freehold land and buildings and information about the fair value hierarchy as at 31 December 2017 and 31 December 2016 are as follows:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Fair value AED'000
31 December 2017				
Freehold land	**-**	**-**	**56,225**	**56,225**
Buildings	**-**	**-**	**45,026**	**45,026**
31 December 2016				
Freehold land	-	-	22,000	22,000
Buildings	-	-	97,499	97,499

Had the Group's land and buildings being measured on a historical cost basis their carrying amount would have been as follows:

	2017 AED '000	2016 AED '000
Freehold land	**11,929**	11,929
Buildings	**16,373**	17,898
	28,302	29,827

Information technology assets include intangible assets amounting to AED 78.5 million (2016: 8.7 million). The movement in intangible assets is as follows:

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

15. Property and equipment (continued)

	2017 AED '000	2016 AED '000
Cost		
Balance at the beginning of the year	**15,304**	12,735
Additions	**956**	1,611
Transfer	**79,535**	958
Balance at the end of the year	**95,795**	15,304
Accumulated depreciation		
Balance at the beginning of the year	**6,600**	3,816
Depreciation charge for the year	**10,630**	3,414
Balance at the end of the year	**17,230**	6,600
Carrying value		
Balance at the end of the year	**78,565**	8,704

16. Share capital

The authorised, issued, and paid up capital of the Bank comprises 1,737,383,050 shares of AED 1 each (2016: 1,737,383,050 shares of AED 1 each).

17. Tier 1 Capital Securities

On 23 December 2015, the Bank issued Tier 1 Capital Securities (the "Capital Securities") through an SPV, CBI Tier 1 Private Ltd, (the "Issuer") amounting to USD 125 million (AED 459.125 million). These Capital Securities are perpetual and carry an interest rate of 6.50 % (calculated based on the relevant Six- Years Mid Swap Rate plus 4.71 percent per annum) during the "initial period". After the initial period, at every reset date, interest would be calculated for the next reset period at the relevant Six-Year Mid Swap Rate plus a margin of 4.71 percent per annum. Interest is payable semi-annually in arrears on these Capital Securities. The "Initial Period" is the period (from and including) the Issue Date to (but excluding) the First Call Date. The "Reset Date" is the First Call Date and every sixth anniversary thereafter. These Capital Securities are callable by the Bank beginning from 23 December 2021 "First Call date" and every interest payment date thereafter.

Tier 1 Capital Securities are perpetual, subordinated and unsecured. The Bank may elect not to pay a coupon at its own discretion. The holder of the Capital Securities does not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default.

18. Reserves

Statutory reserve

In accordance with UAE Federal Law and the Bank's Articles of Association, a transfer equivalent to at least 10% of the annual net profit is made annually to the statutory reserve until such reserve equals 50% of the paid up share capital.

General reserve

In accordance with the Bank's Articles of Association, a transfer equivalent to at least 10% of the annual net profit should be made to a general reserve each year until the value of the reserve is equal to 50% of the nominal value of the issued share capital.

Properties revaluation reserve

The properties revaluation reserve arises on the revaluation of land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and that is effectively realised, is transferred directly to retained earnings. The revaluation surplus is also transferred as the properties are used by the Group. The amount of surplus so transferred is the difference between depreciation based on the revalued carrying amount of the properties and depreciation based on the properties original cost.

Investments revaluation reserve

The investments revaluation reserve represents accumulated gains and losses arising on the revaluation of financial assets carried at fair value through other comprehensive income.

19. Non-controlling interests

	2017 **AED '000**	**2016** **AED '000**
Balance at the beginning of the year	**340**	443
Share of net loss in subsidiary	**(31)**	(6)
Acquisition of non-controlling interest	**-**	(97)
Balance at the end of the year	**309**	340

20. Deposits and balances due to banks

	2017 **AED '000**	**2016** **AED '000**
Demand and call deposits	**57,748**	57,533
Term deposits	**835,590**	1,087,260
Islamic investment deposits	**-**	91,823
Borrowings under repurchase agreement with banks	**189,004**	506,228
	1,082,342	1,742,844

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

20. Deposits and balances due to banks (continued)

The geographical analysis of deposits and balances due to banks is as follows:

	2017 AED '000	2016 AED '000
Within the U.A.E.	**430,392**	1,217,592
Outside the U.A.E.	**651,950**	525,252
	1,082,342	1,742,844

21. Customers' deposits

	2017 AED '000	2016 AED '000
Current accounts	**3,360,153**	3,553,033
Savings accounts	**573,743**	620,833
Time deposits	**8,947,637**	9,157,482
Other	**279,114**	331,117
	13,160,647	13,662,465

All customers' deposits are from customers within the U.A.E.

22. Islamic customers' deposits

	2017 AED '000	2016 AED '000
Current accounts	**97,883**	41,477
Investment deposits	**786,385**	248,000
Other	**8,824**	-
	893,092	289,477

All Islamic customers' deposits are from customers within the U.A.E.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

23. Payables and other liabilities

	2017 AED '000	2016 AED '000
Interest payable	**126,110**	126,215
Profit payable	**7,027**	4,249
Unearned commission	**60,134**	69,620
Negative fair value of derivative financial instruments	**20,619**	8,655
Cheques and drafts payable	**27,756**	40,073
Customer acceptances	**2,752,242**	1,896,143
Brokerage payables	**9,367**	12,388
Provision for end-of-service benefits (i)	**41,044**	41,217
Other	**95,095**	75,659
	3,139,394	2,274,219

(a) The movements in provision for end of service benefits during the year were as follows:

	2017 AED '000	2016 AED '000
Balance at the beginning of the year	**41,217**	41,813
Charge for the year	**7,969**	8,191
Payments during the year	**(8,142)**	(8,787)
Balance at the end of the year	**41,044**	41,217

24. Cash and cash equivalents

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

	2017 AED '000	2016 AED '000
Cash and balances with the Central Bank of the U.A.E.	**2,088,872**	2,561,366
Deposits and balances due from banks	**817,007**	624,846
	2,905,879	3,186,212
Less: Statutory reserve with the Central Bank of the U.A.E. (note 5)	**(718,290)**	(678,401)
Less: Certificates of deposit with an original maturity of more than 90 days.	**(200,000)**	(1,000,000)
	1,987,589	1,507,811

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

25. Interest income

	2017 AED '000	2016 AED '000
Loans and overdrafts	**781,184**	658,184
Bills discounted	**18,393**	42,372
Debt instruments	**33,202**	43,864
Placements with banks	**13,162**	6,936
	845,941	751,356

26. Income from Islamic financing and investing assets

	2017 AED '000	2016 AED '000
Murabahas	**6,673**	4,749
Ijarah Munttahiya Bittamleek	**1,539**	785
Islamic investment deposits	**2,602**	308
	10,814	5,842

27. Interest expense

	2017 AED '000	2016 AED '000
Customers' deposits	**254,425**	197,467
Borrowing from banks	**25,743**	37,383
	280,168	234,850

28. Distribution to Islamic depositors

	2017 AED '000	2016 AED '000
Islamic customers' deposits	**19,440**	4,266
Islamic investment deposits from banks	**910**	11,110
	20,350	15,376

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

29. Net fee and commission income

	2017 AED '000	2016 AED '000
Fee and commission income		
Facility processing fees	**65,483**	130,936
Commission income	**76,460**	69,205
Bank fees and other charges	**70,044**	37,457
Insurance commission	**24,244**	29,674
Credit card related fees	**22,214**	12,750
Brokerage income	**888**	1,305
	259,333	281,327
Fee and commission expense		
Commission expense	**-**	645
Credit card related expenses	**16,363**	10,297
Other	**11,226**	11,520
	27,589	22,462
	231,744	258,865

30. Other operating income, net

	2017 AED '000	2016 AED '000
Foreign exchange gains	**53,219**	40,851
Dividend income	**804**	804
Gain on revaluation of derivative financial statement	**190**	2,326
Gain on sale of investment measured at amortised cost	**7,847**	6,301
Other	**15,591**	23,062
	77,651	73,344

31. General and administrative expenses

	2017 AED '000	2016 AED '000
Payroll and related expenses	**283,274**	297,408
Rent	**22,006**	22,232
Depreciation on property and equipment	**36,944**	29,966
Depreciation on investment properties	**4,905**	5,300
Write-off of property and equipment	**3,879**	100
Social contributions	**104**	20
Other	**103,233**	101,241
	454,345	456,267

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

32. Impairment losses and provisions, net

	2017 AED '000	2016 AED '000
Impairment allowance on loans and advances to customers	**504,622**	454,499
Impairment losses reversed on brokerage receivables	**(32)**	(112)
Recoveries against impaired loans and advances to customers	**(189,766)**	(97,840)
Recoveries against written off loans	**(94,000)**	(105,997)
Bad debts written off	**2,822**	3,978
Impairment of non-financial assets	**13,050**	3,321
	236,696	257,849

33. Earnings per share

Earnings per share is calculated by dividing the profit for the year attributable to the owners of the Bank, net of interest on Tier 1 capital by the weighted average number of ordinary shares in issue throughout the year as follows:

	2017	2016
Profit for the year attributed to equity holders (AED'000)	**174,622**	125,071
Less: Interest on Tier 1 capital (AED'000)	**(29,843)**	(29,843)
Net profit attributable to equity holders (AED'000)	**144,779**	95,228
Weighted average number of ordinary shares outstanding during the year	**1,737,383,050**	1,737,383,050
Basic and diluted earnings per share (AED)	**0.083**	0.055

34. Related party transactions

(a) The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard (IAS) 24: *Related Party Disclosures*. Related parties comprise companies under common ownership and/or common management and control, their shareholders and key management personnel. Transactions with other related parties are made on substantially the same terms, as those prevailing at the same time for comparable transactions with external customers and parties.

34. Related party transactions (continued)

(b) Year-end related party balances included in the consolidated statement of financial position are as follows:

	2017 AED'000	2016 AED'000
Key management personnel		
Loans and advances to customers	**7,801**	8,668
Customers' deposits	**8,838**	8,201
Other related parties		
Loans and advances to customers	**462,543**	240,591
Deposits and balances due from banks	**6,647**	-
Deposits and balances due to banks	**211,058**	241,874
Customers' deposits	**251,058**	250,480
Interest rate swaps (Notional amount)	**36,730**	36,730
Tier 1 capital securities	**459,125**	459,125

(c) Significant transactions with related parties during the year are as follows:

	2017 AED'000	2016 AED'000
Key management personnel		
Interest income	**220**	308
Interest expense	**231**	146
Compensation of key management personnel*	**19,758**	18,673
Other related parties		
Interest income	**12,244**	5,858
Interest expense	**12,255**	12,352
Interest on Tier 1 capital securities	**29,843**	29,843

* These includes long-term benefits amounting to AED 0.9 (2016: AED 0.9 million) and termination benefits of AED 0.4 million (2016 AED Nil).

35. Contingencies and commitments

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the consolidated statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

35. Contingencies and commitments (continued)

35.1 Contingencies

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

The contractual amounts of contingent liabilities are set out in the following table by category. The amounts reflected in the table represent the maximum accounting loss that would be recognised at the end of reporting period if counterparties failed to perform as contracted.

	2017 AED '000	2016 AED '000
Guarantees	**3,141,704**	2,994,002
Letters of credit	**454,500**	493,991
	3,596,204	3,487,993

35.2 Maturity profile

The maturity profile of the Group's contra accounts were as follows:

	31 December 2017					
	Less than 3 months AED'000	**3 to 6 months AED'000**	**6 to 12 months AED'000**	**1 to 5 years AED'000**	**5 years + AED'000**	**Total AED'000**
Guarantees	**1,691,355**	**597,003**	**373,292**	**479,979**	**75**	**3,141,704**
Letters of credit	**379,045**	**72,608**	**2,847**	**-**	**-**	**454,500**
Total	**2,070,400**	**669,611**	**376,139**	**479,979**	**75**	**3,596,204**

	31 December 2016					
	Less than 3 months AED'000	**3 to 6 months AED'000**	**6 to 12 months AED'000**	**1 to 5 years AED'000**	**5 years + AED'000**	**Total AED'000**
Guarantees	1,483,742	772,382	511,534	220,046	6,298	2,994,002
Letters of credit	369,757	102,335	21,899	-	-	493,991
Total	1,853,499	874,717	533,433	220,046	6,298	3,487,993

Commitments

At any time the Group has outstanding irrevocable commitments to extend credit. These commitments are in the form of approved loan facilities. The amounts reflected in the table below for commitments assume that amounts are fully advanced.

	2017 AED '000	2016 AED '000
Loan commitments	**2,784,333**	2,944,664
Capital commitments	**11,204**	25,689
	2,795,537	2,970,353

36. Segmental analysis

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

For operating purposes the Group is organised into three major business segments as follows:

(a.) Reportable segments

Banking activities include the wholesale banking group, retail banking group, Bank's treasury and others.

Brokerage activities represent brokerage related services in respect of equity shares.

Real estate activities represent brokerage and development related services in respect of the real estate.

36. Segmental analysis (continued)

(b.) The accounting policies of the reportable segments are the same as the Group's accounting policy as described in note 3 of these consolidated financial statements.

(c.) Segment profit represents the profit earned by each segment. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

The segmental information provided to Group's CEO for the reportable segments for the year ended 31 December 2017 and 31 December 2016 are as follows:

For the year ended 31 December 2017

	Banking							
	Wholesale AED'000	Retail AED'000	Treasury AED'000	Others AED'000	Total AED'000	Brokerage AED'000	Real estate AED'000	Total AED'000
Net interest income from external customers	290,705	227,842	33,203	4,487	556,237	-	-	556,237
Inter-segmental net interest income	7,124	-	-	-	7,124	1,003	(8,127)	-
Net fee and commission income	165,972	67,309	(403)	(2,022)	230,856	888	-	231,744
Other operating income, net	36,085	12,271	16,434	4,264	69,054	-	8,597	77,651
Impairment losses and provisions, net	(34,462)	(194,717)	-	3,252	(225,927)	32	(10,801)	(236,696)
General and administrative expenses excluding depreciation	(44,135)	(172,793)	(5,783)	(177,077)	(399,788)	(6,475)	(6,233)	(412,496)
Depreciation expense	(2,824)	(10,349)	(274)	(23,221)	(36,668)	(276)	(4,905)	(41,849)
Profit/(loss) for the year	418,465	(70,435)	43,177	(190,317)	200,888	(4,828)	(21,469)	174,591
As at 31 December 2017								
Segment total assets	11,793,866	4,160,818	3,867,528	432,558	20,254,770	2,317	486,047	20,743,134
Segment total liabilities	11,591,137	5,214,844	1,082,342	367,124	18,255,447	9,620	10,408	18,275,475

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

36. Segmental analysis (continued)

For the year ended 31 December 2016

	Banking							
	Wholesale AED'000	Retail AED'000	Treasury AED'000	Others AED'000	Total AED'000	Brokerage AED'000	Real estate AED'000	Total AED'000
Net interest income from external customers	258,179	214,531	31,071	3,191	506,972	-	-	506,972
Inter-segmental net interest income	7,641	-	-	-	7,641	906	(8,547)	-
Net fee and commission income	182,198	75,557	(148)	-	257,607	1,283	(25)	258,865
Other operating income, net	28,842	8,030	13,833	1,733	52,438	426	20,480	73,344
Impairment losses and provisions, net	(112,120)	(136,603)	-	(6,447)	(255,170)	642	(3,321)	(257,849)
General and administrative expenses excluding depreciation	(44,724)	(173,869)	(6,263)	(187,143)	(411,999)	(3,934)	(5,068)	(421,001)
Depreciation expense	(1,446)	(11,885)	(127)	(16,339)	(29,797)	(169)	(5,300)	(35,266)
Profit/(loss) for the year	318,570	(24,239)	38,366	(205,005)	127,692	(846)	(1,781)	125,065
As at 31 December 2016								
Segment total assets	11,056,074	4,360,648	4,360,042	105,346	19,882,110	3,119	432,594	20,317,823
Segment total liabilities	11,285,555	4,562,529	1,742,844	356,777	17,947,705	12,792	8,508	17,969,005

The Group conducted all of its operation in the United Arab Emirates, there is no operation outside the United Arab Emirates.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

37. Classification of financial assets and financial liabilities

The table below sets out the Group's classification for each class of financial assets and financial liabilities and their carrying amounts as at 31 December 2017 and 31 December 2016:

	At fair value through profit or loss AED'000	At fair value through other comprehensive income AED'000	At amortised cost AED'000	Total carrying amount AED'000
31 December 2017				
FINANCIAL ASSETS				
Cash and balances with the Central Bank of the U.A.E.	-	-	**2,088,872**	**2,088,872**
Deposits and balances due from banks	-	-	**817,007**	**817,007**
Loans and advances to customers	-	-	**12,610,527**	**12,610,527**
Islamic financing and investing assets	-	-	**265,466**	**265,466**
Financial assets measured at fair value	-	**72,169**	-	**72,169**
Other financial assets measured at amortised cost	-	-	**852,826**	**852,826**
Receivables and other assets	**20,761**	-	**2,952,798**	**2,973,559**
Total	**20,761**	**72,169**	**19,587,496**	**19,680,426**
FINANCIAL LIABILITIES				
Deposits and balances due to banks	-	-	**1,082,342**	**1,082,342**
Customers' deposits	-	-	**13,160,647**	**13,160,647**
Islamic customers' deposits	-	-	**893,092**	**893,092**
Payables and other liabilities	**20,619**	-	**3,017,597**	**3,038,216**
Total	**-**	**-**	**18,153,678**	**18,174,297**
31 December 2016				
FINANCIAL ASSETS				
Cash and balances with the Central Bank of the U.A.E.	-	-	2,561,366	2,561,366
Deposits and balances due from banks	-	-	624,846	624,846
Loans and advances to customers	-	-	13,024,470	13,024,470
Islamic financing and investing asset	-	-	248,832	248,832
Financial assets measured at fair value	-	95,487	-	95,487
Other financial assets measured at amortised cost	-	-	933,565	933,565
Receivables and other assets	7,935	-	1,961,646	1,969,581
Total	7,935	95,487	19,354,725	19,458,147
FINANCIAL LIABILITIES				
Deposits and balances due to banks	-	-	1,742,844	1,742,844
Customers' deposits	-	-	13,662,465	13,662,465
Islamic customers' deposits	-	-	289,477	289,477
Payables and other liabilities	8,655	-	2,154,727	2,163,382
Total	8,655	-	17,849,513	17,858,168

38. Fair value of financial instruments

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

(a) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The fair value of financial assets and financial liabilities are determined as follows:

- Fair value of all quoted investments measured at fair value through profit or loss and at fair value through other comprehensive income (note 11) are based on quoted bid prices in an active market;

- Fair value of all unquoted equity investments and unquoted investment funds measured at fair value through other comprehensive income (note 11) is mainly based on market approach based valuation technique using price/book value multiple of trading peers and precedent transactions. These price/book values multiples and precedent transactions are unobservable input; and

- Fair value of all foreign currency derivatives (note 39) is calculated using discounted cash flow. Discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

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

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Financial assets at fair value through other comprehensive income				
- Equity shares	**17,692**	**-**	**50,921**	**68,613**
- Investment funds	**-**	**-**	**3,556**	**3,556**
Financial assets at fair value through profit or loss				
- Positive fair value of derivatives financial assets	**-**	**20,761**	**-**	**20,761**
Total	**17,692**	**20,761**	**54,477**	**92,930**
Financial liabilities at fair value through profit or loss				
- Negative fair value of derivatives financial assets	**-**	**20,619**	**-**	**20,619**

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

38. Fair value of financial instruments (continued)

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

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Financial assets at fair value through other comprehensive income				
- Equity shares	18,899	-	70,696	89,595
- Investment funds	-	-	5,892	5,892
Financial assets at fair value through profit or loss				
- Positive fair value of derivatives financial assets	-	7,935	-	7,935
Total	18,899	7,935	76,588	103,422
Financial liabilities at fair value through profit or loss				
- Negative fair value of derivatives financial assets	-	8,655	-	8,655

For level 3 fair valuation, higher the unobservable input of price/book value multiple, the higher is fair value.

There were no transfers between Level 1 and 2 during the years ended 31 December 2017 and 2016.

Reconciliation of Level 3 fair value measurements of financial assets

	2017	**2016**
	AED '000	**AED '000**
Balance at the beginning of the year	**76,588**	78,280
Total gains or losses:-		
- in other comprehensive income	**(16,166)**	(1,692)
- disposal	**(5,945)**	-
Balance at the end of the year	**54,477**	76,588

The financial liabilities subsequently measured at fair value are measured on level 2 fair value measurement. There are no financial liabilities measured at fair value on level 3 measurement.

All gain and losses included in other comprehensive income relate to FVTOCI (quoted investments or unquoted investments) held at the end of the year and are reported as changes in 'Investment revaluation reserve'.

38. Fair value of financial instruments (continued)

(b) Fair value of financial instruments carried at amortised cost

Except as detailed below, the directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate their fair values.

	2017 AED'000	2016 AED'000
Carrying amount		
Investment in debt instruments	**852,826**	933,565
Fair value		
Investment in debt instruments	**835,963**	917,831

All above financial instruments are quoted instruments and categorised as level 1 in fair value hierarchy. The fair value is determined using unadjusted quoted market prices.

39. Derivatives

Derivative financial instruments are utilised by the Group primarily to satisfy the requirements of its customers and are also used to a limited extent to manage the Group's own exposure to currency, interest rate and other market risks.

The derivatives most frequently used by the Group are as follows:

Swaps

Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.

Foreign exchange forwards contracts

Foreign exchange forwards contracts are contractual agreements to either buy or sell a specified currency at a specified price and date in the future. Forwards are customised contracts transacted in the over-the counter market.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

39. Derivatives (continued)

				Notional amount by term maturity				
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Up to 3 months AED'000	3 - 6 months AED'000	6 - 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000
31 December 2017								
Forward foreign exchange contracts	**16**	**73**	**69,158**	**69,158**	**-**	**-**	**-**	**-**
Interest rate swaps	**20,745**	**20,546**	**1,952,242**	**-**	**-**	**-**	**1,375,636**	**576,606**
Total	**20,761**	**20,619**	**2,021,400**	**69,158**	**-**	**-**	**1,375,636**	**576,606**
31 December 2016								
Forward foreign exchange contracts	7,935	6,795	537,180	433,114	104,066	-	-	-
Interest rate swaps	-	1,860	36,730	-	-	-	-	36,730
Total	7,935	8,655	573,910	433,114	104,066	-	-	36,730

40. Financial risk management

The Group has exposure to the following primary risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk are discussed below:

40. Financial risk management (continued)

As part of its management of risks, the Group implemented systems for the management of its Credit Risk, Market Risk, Liquidity Risk and Asset and Liability Management (ALM) Risk. These systems include credit origination, analysis, rating, pricing and approval. For treasury, the Group has acquired systems for front and back offices to manage efficiently market risk, liquidity risk, and ALM risk. For Operational risk, the Group has developed internally, tools that can allow the analysis, quantification, and reporting of operational risk events/losses that are faced on a granular cluster level.

In addition, the Group is also exposed to other risks that are managed along with the key risks, and are quantified, monitored and reported as part of the Group's Internal Capital Adequacy Assessment Policy (ICAAP) Framework. Such risks include, among others, concentration risk, strategic risk, business risk, and legal and compliance risk.

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Group Asset and Liability (ALCO) Committee, Credit Risk Committee, Executive Committee, and Management Committee, which are responsible for developing and monitoring Group risk management policies in their specified areas. These committees comprise key Group management staff, who convene frequently to appraise the Group's risk profile and various risk issues. However, the Board is ultimately responsible for the approval of the risk policies and procedures, infrastructure and management of all risks related to the Group.

Credit risk is managed by the Group's Credit Committee and includes a periodic review of credit limits, policies and procedures, the approval of specific exposures and workout situations, and a regular re-evaluation of the loans portfolio and the sufficiency of provisions relating thereto.

The Assets and Liabilities Committee (ALCO) monitors and controls market and liquidity risks primarily by means of gap analyses of maturities of assets and liabilities for day-to-day.

Operational Risk is managed by the Management Committee with the support of the Risk Management Department and various other units/divisions across the Group including IT.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

40.1 Credit risk

Credit risk is the risk of loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's loans and advances amounts, Islamic financing and investing assets, due from banks and non-trading investments. Credit risk can also arise from financial guarantees, letters of credit, endorsements and acceptances. Credit risk is the single largest risk for the Group business, management therefore carefully manages its exposure to credit risk.

For risk management purposes, credit risk arising on trading investments is managed independently, but reported as a component of market risk exposure.

40. Financial risk management (continued)

40.1 Credit risk (continued)

40.1.1 Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Group Credit Committee which is responsible for oversight of the Group's credit risk including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishment of authorisation structure and limits for the approval and renewal of credit facilities. Lending authorities have been established at various levels together with a framework of dual/multiple credit approval delegated authorities. Larger facilities require approval by the Group Credit Committee and/or the Board of Directors, as appropriate.
- Establishing limits and actual levels of exposure are reviewed regularly and updated by the Group Credit Committee or the Board of Directors, as appropriate.
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties.
- Developing and maintaining the Group's risk grading in category exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Executive Committee and is subject to regular reviews by the Group Risk Management Department.
- Credit review procedures are designed to identify at an early stage exposures which require more detailed monitoring and review.
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.
- In addition the Group has an Internal Audit Department that undertakes regular audits of the business units and the Group credit process and reports direct to the Audit Committee.

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

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

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

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

40. Financial risk management (continued)

40.1 Credit risk (continued)

40.1.2 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

	Gross maximum exposure	
	2017 AED '000	2016 AED '000
Balances with the Central Bank of the U.A.E.	**1,875,817**	2,406,007
Deposits and balances due from banks	**817,007**	624,846
Loans and advances to customers	**13,096,572**	13,896,901
Islamic financing and investing assets	**265,466**	248,832
Other financial assets measured at amortised cost	**852,826**	933,565
Receivables and other assets	**2,973,112**	1,991,062
	19,880,800	20,101,213
Contingent liabilities (note 35)	**3,596,204**	3,487,993
Total	**23,477,004**	23,589,206

40.1.3 Risk concentrations of the maximum exposure to credit risk

The Group monitors concentrations of credit risk by sector and by geographic location. An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	2017 AED'000	2016 AED'000
Commercial and business:		
Manufacturing	**1,103,863**	1,059,543
Real estate and construction	**6,294,327**	6,441,054
Trade	**3,602,958**	4,213,157
Transport	**1,106,043**	1,279,534
Communication and other service	**4,368,969**	3,324,680
Total commercial and business	**16,476,160**	16,317,968
Banks and financial institutions	**3,061,332**	3,259,088
Government and public sector entities	**852,826**	1,081,089
Retail lending	**3,086,686**	2,931,061
	23,477,004	23,589,206

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

40. Financial risk management (continued)

40.1 Credit risk (continued)

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

The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2017 AED '000	2016 AED '000
U.A.E.	**21,277,045**	21,717,263
G.C.C.	**333,740**	771,321
Other Arab countries	**659,781**	62,407
Europe	**252,799**	401,868
U.S.A.	**12,709**	24,644
Asia	**311,138**	161,667
Others	**629,792**	450,036
	23,477,004	23,589,206

40.1.4 Analysis of the credit quality

Impaired exposures

Impaired exposures are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

Past due but not impaired loans

Exposures where contractual interest or payments are past due up to 180 days but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

40. Financial risk management (continued)

40.1 Credit risk (continued)

40.1.4 Analysis of the credit quality (continued)

31 December 2017	Balances with central bank and due from banks AED'000	Loans and advances and Islamic financing and investing assets AED'000	Other financial assets measured at amortised cost AED'000	Receivables and other assets AED'000	Contingent liabilities AED'000	Total AED'000
Non-impaired exposures						
Neither past due nor impaired	2,692,824	10,951,370	852,826	2,952,798	3,596,204	21,046,022
Past due up to 30 days	-	1,043,808	-	-	-	1,043,808
Past due 30 - 60 days	-	203,878	-	-	-	203,878
Past due 60 - 90 days	-	119,194	-	-	-	119,194
Past due 90 - 180 days	-	154	-	-	-	154
Individually impaired exposures	-	1,043,634	-	20,314	-	1,063,948
Gross amount	2,692,824	13,362,038	852,826	2,973,112	3,596,204	23,477,004
Less: Allowance for impairment	-	(486,045)	-	(20,314)	-	(506,359)
Net carrying amount	2,692,824	12,875,993	852,826	2,952,798	3,596,204	22,970,645

40. Financial risk management (continued)

40.1 Credit risk (continued)

40.1.4 Analysis of the credit quality (continued)

31 December 2016	Balances with central bank and due from banks AED'000	Loans and advances and Islamic financing and investing assets AED'000	Other financial assets measured at amortised cost AED'000	Receivables and other assets AED'000	Contingent liabilities AED'000	Total AED'000
Non-impaired exposures						
Neither past due nor impaired	3,030,853	11,856,445	933,565	1,991,062	3,487,993	21,299,918
Past due up to 30 days	-	532,555	-	-	-	532,555
Past due 30 - 60 days	-	113,605	-	-	-	113,605
Past due 60 - 90 days	-	62,520	-	-	-	62,520
Past due 90 - 180 days	-	229,467	-	-	-	229,467
Individually impaired exposures	-	1,351,141	-		-	1,351,141
Gross amount	3,030,853	14,145,733	933,565	1,991,062	3,487,993	23,589,206
Less: Allowance for impairment	-	(872,431)	-	(29,416)	-	(901,847)
Net carrying amount	3,030,853	13,273,302	933,565	1,961,646	3,487,993	22,687,359

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. The Group does not usually offer concessions simply because of the borrower's financial position. Rather, it reschedules the outstanding to improve the likelihood of collection. Once the loan is restructured, it remains in the same category grade defined by the Group's credit risk rating methodology until satisfactory performance after restructuring and as per the requirements of the Central Bank of the U.A.E.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss components that relate to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

40. Financial risk management (continued)

40.1 Credit risk (continued)

40.1.4 Analysis of the credit quality (continued)

Write-off policy

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

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

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

The Group's current Credit Risk Rating Methodology comprises 10 grades as set out below. Grades IA to IE reflect performing accounts; grades IIA and IIB reflect irregular accounts (other loans especially mentioned) and grades III to V reflect non-performing accounts.

Risk grade	Risk significance
Regular Accounts	
Grade IA	Substantially Risk Free Exposure
Grade IB	Minimal Risk
Grade IC	Moderate Risk
Grade ID	Average Risk
Grade IE	Below Average Risk
Other Loans Especially Mentioned (OLEM)	
Grade IIA	Requires Management Attention and Control
Grade IIB	Watch Listed
Non Performing Accounts	
Grade III	Substandard
Grade IV	Doubtful
Grade V	Loss

	2017 **AED '000**	**2016** **AED '000**
Regular Accounts	**21,207,021**	20,717,221
Other Loans Especially Mentioned (OLEM)	**1,206,035**	1,520,844
Non Performing Accounts	**1,063,948**	1,351,141
	23,477,004	23,589,206

40. Financial risk management (continued)

40.1 Credit risk (continued)

40.1.5 Collateral

The Group in ordinary course of providing finance holds collateral as security to mitigate credit risk associated with loans and advances and Islamic financing and investing assets. The collaterals include cash, guarantees, mortgages and liens over properties or other securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored on a periodic basis. Generally, collateral is not held against non-trading investments and amounts due from banks.

The estimated value of collaterals for loans and advances to customers and Islamic financing and investing assets other than retail portfolio are as follows:

	2017 AED '000	2016 AED '000
Property and mortgage	**6,946,349**	6,789,020
Deposits and shares	**4,132,086**	3,494,549
Vehicles and machines	**154,550**	29,419
	11,232,985	10,312,988

The management estimates the fair value of collateral and other security enhancements held against individually impaired loans and advances and Islamic financing and investing assets as at 31 December 2017 to be approximately AED 765 million (2016: AED 582 million).

Settlement risk

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

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

40.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities. It includes the risk of inability to fund assets at appropriate maturities and rates, and inability to liquidate assets at a reasonable price and in an appropriate time frame, and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

40. Financial risk management (continued)

40.2 Liquidity risk (continued)

40.2.1 Management of liquidity risk

Liquidity risk is managed by the Treasury and ALM departments in line with the regulatory and internal policies and guidelines.

The Group's approach to managing liquidity risk is to ensure that it has adequate funding from diversified sources at all times and that it can withstand any major shocks to its liquidity position. Funds are raised using a broad range of instruments including customer deposits, money market instruments and capital. The Treasury and ALM departments monitor the liquidity profile of financial assets and liabilities and the projected cash flows arising from existing and future business. Treasury maintains a portfolio of short-term liquid assets and inter-bank placements to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and abnormal market conditions. The Group's liquidity policy is set by the Board of Directors and is subject to annual review. Adherence to the policies is monitored by the Group Risk Management Department and ALCO.

40.2.2 Exposure to liquidity risk

The key measures used by the Group for measuring liquidity risk are advances to stable resources (which is a regulatory measure) as well as the ratio of net liquid assets, i.e., total assets by maturity against total liabilities by maturity.

The following table summarises the maturity profile of the cash flows of the Group’s financial assets and financial liabilities at the end of reporting period. The amounts disclosed in the table are determined on the basis of the remaining period at the end of reporting period to the contractual maturity date.

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

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

40. Financial risk management (continued)

40.2 Liquidity risk (continued)

40.2.2 Exposure to liquidity risk (continued)

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

	Less than 3 months AED'000	3 to 6 months AED'000	6 to 12 months AED'000	One year + AED'000	No fixed maturity AED'000	Total AED'000
FINANCIAL ASSETS						
Cash and balances with the Central Bank of the U.A.E.	900,000	-	-	-	1,188,872	2,088,872
Deposits and balances due from banks	572,280	-	-	-	244,727	817,007
Loans and advances to customers	3,269,833	916,604	1,053,065	7,371,025	-	12,610,527
Islamic financing and investing assets	51,550	2,808	-	211,108	-	265,466
Financial assets at fair value	-	-	-	-	72,169	72,169
Other financial assets measured at amortised cost	-	-	-	852,826	-	852,826
Receivables and other assets	1,152,554	538,076	1,282,929	-	-	2,973,559
Total	5,946,217	1,457,488	2,335,994	8,434,959	1,505,768	19,680,426
FINANCIAL LIABILITIES						
Deposits and balances due to banks	2,850	189,004	649,100	183,640	57,748	1,082,342
Customers' deposits	3,009,520	1,497,024	3,804,114	916,093	3,933,896	13,160,647
Islamic customers' deposits	501,405	115,000	169,980	8,824	97,883	893,092
Payables and other liabilities	1,217,211	538,076	1,282,929	-	-	3,038,216
Total	4,730,986	2,339,104	5,906,123	1,108,557	4,089,527	18,174,297
Liquidity gap	1,215,231	(881,616)	(3,570,129)	7,326,402	(2,583,759)	1,506,129

40. Financial risk management (continued)

40.2 Liquidity risk (continued)

40.2.2 Exposure to liquidity risk (continued)

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

	Less than 3 months AED'000	3 to 6 months AED'000	6 to 12 months AED'000	One year + AED'000	No fixed maturity AED'000	Total AED'000
FINANCIAL ASSETS						
Cash and balances with the Central Bank of the U.A.E.	700,000	-	900,000	-	961,366	2,561,366
Deposits and balances due from banks	10,087	-	-	-	614,759	624,846
Loans and advances to customers	4,084,794	978,662	794,202	7,166,812	-	13,024,470
Islamic financing and investing assets	17,026	17,035	36,157	178,614	-	248,832
Financial assets at fair value	-	-	-	-	95,487	95,487
Other financial assets measured at amortised cost	-	36,732	-	896,833	-	933,565
Receivables and other assets	656,743	366,002	946,836	-	-	1,969,581
Total	5,468,650	1,398,431	2,677,195	8,242,259	1,671,612	19,458,147
FINANCIAL LIABILITIES						
Deposits and balances due to banks	57,533	323,873	361,942	373,645	625,851	1,742,844
Customers' deposits	3,483,596	2,208,007	3,452,419	344,577	4,173,866	13,662,465
Islamic customers' deposits	25,000	63,000	160,000	-	41,477	289,477
Payables and other liabilities	850,544	366,002	946,836	-	-	2,163,382
Total	4,416,673	2,960,882	4,921,197	718,222	4,841,194	17,858,168
Liquidity gap	1,051,977	(1,562,451)	(2,244,002)	7,524,037	(3,169,582)	1,599,979

The previous table shows discounted cash flows on the Group's financial assets and financial liabilities on the basis of their earliest possible contractual maturity.

40. Financial risk management (continued)

40.3 Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income and/or the value of the financial instrument. The Group manages its market risk in order to achieve an optimum return while maintaining market risk exposure within prudent limits.

40.3.1 Management of market risk

The Board of directors has set risks limits based on sensitivity analysis and notional limits which are closely monitored by the Risk Management Department, reported frequently to Senior Management and discussed monthly by the ALCO.

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

40.3.2 Exposure to interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rate will adversely affect the value of the financial instruments and the related income. The Group manages the risk principally through monitoring interest rate gaps, matching the re-pricing profile of assets and liabilities and by having pre-approved limits for repricing brands. The ALCO monitors compliance with these limits and is assisted by the Risk Management Department for day to day monitoring of activities.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

40. Financial risk management (continued)

40.3 Market risk (continued)

40.3.2 Exposure to interest rate risk (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2017 and Group's sensitivity to a 50 basis points increase in interest rates:
Interest Rate Sensitivity Gap:

	Less than 3 months AED'000	3 to 6 months AED'000	6 to12 months AED'000	One year + AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with the Central Bank of the U.A.E.	-	-	-	-	2,088,872	2,088,872
Deposits and balances due from banks	-	-	-	-	817,007	817,007
Loans and advances to customers	2,951,086	-	-	-	9,659,441	12,610,527
Islamic financing and investing assets	30,141	-	-	-	235,325	265,466
Financial assets measured at fair value	-	-	-	-	72,169	72,169
Other financial assets measured at amortised cost	-	-	-	-	852,826	852,826
Property inventory	-	-	-	-	561,594	561,594
Receivables and other assets	-	-	-	-	3,029,543	3,029,543
Investment in associates	-	-	-	-	53,477	53,477
Investment properties	-	-	-	-	182,630	182,630
Property and equipment and intangible assets	-	-	-	-	209,023	209,023
Total assets	2,981,227	-	-	-	17,761,907	20,743,134
Liabilities and Equity						
Deposits and balances due to banks	68,748	189,004	459,100	183,640	181,850	1,082,342
Customers' deposits	-	-	-	-	13,160,647	13,160,647
Islamic customers' deposits	-	-	-	-	893,092	893,092
Payables and other liabilities	-	-	-	-	3,139,394	3,139,394
Total equity	-	-	-	-	2,467,659	2,467,659
Total liabilities and equity	68,748	189,004	459,100	183,640	19,842,642	20,743,134
Interest rate sensitivity gap	2,912,479	(189,004)	(459,100)	(183,640)	(2,080,735)	-
Cumulative interest rate sensitivity gap	2,912,479	2,723,475	2,264,375	2,080,735	-	-
Impact on profit and loss and equity if interest rates had been 50 basis point higher						10,403

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

40. Financial risk management (continued)

40.3 Market risk (continued)

40.3.2 Exposure to interest rate risk (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2016 and Group's sensitivity to a 50 basis points increase in interest rates:
Interest Rate Sensitivity Gap:

	Less than 3 months AED'000	3 to 6 months AED'000	6 to12 months AED'000	One year + AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with the Central Bank of the U.A.E.	-	-	-	-	2,561,366	2,561,366
Deposits and balances due from banks	-	-	-	-	624,846	624,846
Loans and advances to customers	888,471	-	-	-	12,135,999	13,024,470
Islamic financing and investing assets	30,000	-	-	-	218,832	248,832
Financial assets measured at fair value	-	-	-	-	95,487	95,487
Other financial assets measured at amortised cost	-	-	-	-	933,565	933,565
Property inventory	-	-	-	-	460,193	460,193
Receivables and other assets	-	-	-	-	2,031,924	2,031,924
Investment properties	-	-	-	-	117,608	117,608
Property and equipment and intangible assets	-	-	-	-	219,532	219,532
Total assets	918,471	-	-	-	19,399,352	20,317,823
Liabilities and Equity						
Deposits and balances due to banks	91,823	220,374	190,991	183,645	1,056,011	1,742,844
Customers' deposits	-	-	-	-	13,662,465	13,662,465
Islamic customers' deposits	-	-	-	-	289,477	289,477
Payables and other liabilities	-	-	-	-	2,274,219	2,274,219
Total equity	-	-	-	-	2,348,818	2,348,818
Total liabilities and equity	91,823	220,374	190,991	183,645	19,630,990	20,317,823
Interest rate sensitivity gap	826,648	(220,374)	(190,991)	(183,645)	(231,638)	-
Cumulative interest rate sensitivity gap	826,648	606,274	415,283	231,638	-	-
Impact on profit and loss and equity if interest rates had been 50 basis point higher						1,158

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

40. Financial risk management (continued)

40.3 Market risk (continued)

40.3.2 Exposure to interest rate risk (continued)

Overall non-trading interest rate risk positions are managed by the Treasury and ALM departments, which use investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's non-trading activities.

40.3.3 Currency risk

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

	Net spot position AED'000	**Forward position AED'000**	**Total 2017 AED'000**	**Total 2016 AED'000**
Currency				
US Dollar	**(169,202)**	**12,831**	**(156,371)**	954,425
Great Britain Pound	**(14,171)**	**14,241**	**70**	(115)
Japanese Yen	**(66)**	**-**	**(66)**	341
Euro	**(3,019)**	**2,057**	**(962)**	(313)
Other	**(5,082)**	**5,435**	**(353)**	148

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% increase and decrease in the AED against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit where the US$ strengthens 10% against the relevant currency. For a 10% weakening of the US$ against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	Profit or (loss)	
	2017 AED '000	2016 AED '000
Great Britain Pound	**1**	(12)
Japanese Yen	**(1)**	34
Euro	**(96)**	(31)

There is no exchange rate risks relating to financial assets and financial liabilities denominated in United States Dollar (USD), which is pegged to the UAE Dirham.

40. Financial risk management (continued)

40.3 Market risk (continued)

40.3.4 Other price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower, other comprehensive income as at year end would have been higher/lower by AED 3.6 million (2016: AED 4.8 million).

41. Capital management

The Group's lead regulator, the Central Bank of the U.A.E., sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern and to increase returns for shareholders; and
- To comply with regulatory capital requirements set by the Central Bank of the U.A.E.

In implementing current capital requirements, the Group calculates its capital adequacy ratio in accordance with the Basel III guidelines issued by the Central Bank of the U.A.E. These guidelines came into effect from 1 February 2017 with first reporting requirement starting from December 2017 onwards. Under these regulations, minimum capital requirements are monitored at three levels, namely Common Equity Tier 1 (‘CET1’), Tier 1 (‘T1’) and Total Capital.

41.1 Regulatory capital

The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the U.A.E.

The Group’s regulatory capital is analysed into different tiers:

41. Capital management (continued)

41.1 Regulatory capital (continued)

- Common Equity Tier 1 Capital, which includes Common shares issued by a bank, Share premium resulting from the issue of instruments included in CET1, retained earnings, legal reserves, statutory reserves, accumulated other comprehensive income and other disclosed reserves, minority interest, which are eligible for inclusion in CET1 and regulatory adjustments applied in the calculation of CET1;
- Additional Tier 1 Capital (AT1);
- Tier 1 capital, which is the total of Common equity Tier 1 (CET1) Capital and Additional Tier 1 (AT1) capital;
- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of credit RWA), perpetual equity instruments, not included in Tier 1 capital and Instruments which are eligible for inclusion of Tier 2 e.g. subordinated loan.

The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced under Basel III guidelines are over and above the minimum CET1 requirement of 7%.

For 2017, CCB is effective in transition arrangement and is required to be maintained at 1.25% of the Capital base. For 2018, CCB will be required at 1.88% and from 2019; it will be required to be maintained at 2.5% of the Capital base. CCyB is not yet in effect and is not required to be maintained for 2017.

For the purpose of Basel III capital adequacy reporting, only financial subsidiaries are consolidated. Commercial subsidiaries are excluded from consolidated reporting..

The bank's RWA are weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The bank is following the standardised measurement approach for credit, market and operational risk, as per Basel Requirements.

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

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

41. Capital management (continued)

41.2 Capital adequacy

The Group's regulatory capital position at the end of reporting period under Basel III is as follows:

	2017 AED '000
Capital Base	
Share capital	1,737,383
Statutory reserve	221,770
Accumulated other comprehensive income	(35,788)
Accumulated losses	2,024
Non-controlling interest	309
CET1 capital (prior to regulatory deductions)	**1,925,698**
Regulatory deductions	
Intangible assets	(78,565)
Transitional adjustments	15,714
Total CET1 capital after transitional adjustments	**1,862,847**
Additional Tier 1 (AT1) Capital	459,125
Transitional adjustments	(7,856)
Total AT1 capital after transitional adjustments	**451,269**
Total Tier 1 Capital	**2,314,116**
Eligible general provision	193,130
Transitional adjustments	(7,856)
Tier 2 (T2) Capital after transitional adjustments	**185,274**
Total capital base	**2,499,390**
Risk weighted assets	
Credit risk	15,450,398
Market risk	16,465
Operational risk	1,401,099
Total risk-weighted assets	**16,867,962**

	Minimum requirement 2017	Capital ratios 2017
CET1 capital ratio	**7.0%**	**11.0%**
Tier 1 capital ratio	**8.5%**	**13.7%**
Total capital ratio	**10.5%**	**14.8%**
CET1 available for the buffer requirement	**1.25%**	**4.0%**

41. Capital management (continued)

41.3 Capital allocation

The Group also assesses internally its capital requirements taking into consideration its growth requirements and business plans, and quantifies its regulatory and risk/economic capital requirements within its integrated ICAAP Framework. Risks such as interest rate risk on the banking book, concentration risk, stress testing, strategic risk, legal and compliance risk, and reputational risk are all part of the ICAAP.

The Group also calculates Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis.

42. Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2017 were approved by the Board of Directors and authorised for issue on 04 February 2018.