Al Hilal Bank PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

Principal business address:
Al Hilal Bank PJSC
P O Box: 63111
Abu Dhabi
UAE

Al Hilal Bank PJSC
Consolidated financial statements
Year ended 31 December 2018

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بسم الله الرحمن الرحيم

Internal Sharia Control Committee Report – Al Hilal Bank Group
For the Financial Year Ended on 31 December 2018

Praise be to Allah and peace be upon His Messenger, Mohammed and upon his family and companions.

To: Shareholders of Al Hilal Bank
السلام عليكم ورحمة الله تعالى وبركاته،

In line with Article No. 45 of the Bank's Articles of Association, the Internal Shariah Control Committee (the "Committee") is pleased to present its report as follows:

We have examined the principles and the contracts related to the products and transactions, which the Bank has executed or launched during the term of our appointment for monitoring and supervision, in order to pronounce whether or not the Bank has complied with the Shariah rules and principles as well as with the opinions, resolutions and instructions issued by us, which, in general, are in compliance with the Shariah Standards of Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) Bahrain which have been adopted by the Committee as a basic and mandatory reference for its work since 1/9/2018 implementing the resolution No. (18/3/2018) issued by the Higher Sharia Authority of the UAE Central Bank.

The Committee asserts that the responsibility of ensuring the Bank's conformity, in its practice, with Shariah rules and principles rests solely with the Executive Committee and Board of Directors of the Bank. However, the responsibility of the Committee is confined only to express an independent opinion either based on its direct supervision of the Bank's activities or through the Shariah Supervision Department of the Bank, and to report our findings thereof to you in light of the details shown by the minutes and reports of our meetings and Shariah audit.

We have reviewed all products launched by the Bank during the year in question, including manuals, execution mechanisms and standard contracts as well as non-standard agreements, especially contracts related to syndicated finance.

With the help of the Shariah Supervision Department, we have planned and conducted the Shariah audit of the transactions executed during the year and obtained all the information and explanations which we deem necessary to reasonably believe that the Bank has not violated Shariah rules and principles.

Likewise, we have reviewed periodical Shariah audit reports and observations raised to us by the Shariah Supervision Department including different kinds of operations carried out by the Bank. The Shariah audit findings have been reviewed by us in light of the concerned departments' clarifications and justifications and according to which resolutions and appropriate instructions have been given. This is in addition to our review of the Bank's Consolidated Financial Statements and the associated notes, and also the monthly distribution of profits among the depositors and shareholders.

The Committee held a total number of four meetings during the year, and approved some new products proposed by the Management. The Committee has also answered the queries presented to it through emails or telephone calls.

The Committee confirms that it has carried out all the functions referred above and assigned to it with complete independence and with support of the Executive Management of the Bank and its Board of Directors, it also received the required support to review all documents and discuss the findings thereof.

Accordingly, the Committee is of the opinion that:

1. Bank's current policies, the implemented accounting standards, financial products and services, activities, memorandum of association and current articles of association, and financial statements, in general, are compliant with the rules and principles of Sharia.
2. The contracts, operations and transactions executed by the Bank (and its subsidiaries), the investments entered into and the activities conducted by it during the financial year ended on 31 December 2018 as presented to us, are overall in accordance with Shariah rules and principles. And whatever discrepancies are found in some cases, the Management has been guided as to how to correct them and tackle their effects and consequences as required by Shariah.
3. Distribution of profits and charging of losses on investment accounts (including allocating costs and expenses to these accounts and that of the shareholders) are in conformity with the standards approved by us as per Shariah rules and principles.
4. All the profits earned through Shariah non-compliant sources and means have been forfeited to the charity account to be spent for charity causes as per our guidelines, far away from being utilized by the Bank in any manner whatsoever.
5. Owing the fact that the Bank is fully owned by the government, its funds become public funds, and hence the Bank is not under an obligation to pay Zakat on them. However, given the Shariah opinion that public funds are subject to Zakat if they are invested or put into business, the Committee advises that the Bank should pay Zakat on its funds in support of Zakat beneficiaries. As the Bank has no absolute authority to discharge Zakat directly, the obligation to discharge Zakat falls on the shareholders themselves in adherence to the third pillar of Islam.

The Committee extends its thanks to the Management of the Bank, and prays to Allah to enable them to serve the Islamic economy, and to bless the wealth of the Bank's shareholders and its customers and to bestow us all with Halal provision, and sincerity in our words and deeds. Finally praised be Allah, the Exalted, and peace be upon His Messenger, Mohammed and upon his family and companions.

والسلام عليكم ورحمة الله تعالى وبركاته،

Dr. Ali Husain Aljunaidi
Member

Dr. Salim Ali Al Ali
Member

Dr. Ibrahim Ali Almansoori
Chairman

Place: Abu Dhabi, UAE.

Date: Thursday, 9th Jumada Al Aakhirah, 1440 AH, corresponding to 14th Feb 2019.

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Ernst & Young
P.O. Box: 136
27th Floor, Nation Tower 2
Abu Dhabi Corniche
Abu Dhabi, United Arab Emirates

Tel: +971 2 417 4400
Fax: +971 2 627 3383
abudhabi@ae.ey.com
ey.com/mena

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF AL HILAL BANK PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Al Hilal Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF AL HILAL BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Provision for impairment of receivables from Islamic financing activities and Ijara
At 31 December 2018, gross receivables from Islamic financing activities and Ijara amounted to AED 29,880,774 thousand against which provisions for impairment amounting to AED 1,812,051 thousand were recorded (see Note 11 and 12). Due to the inherently judgmental nature of the computation of expected credit losses ("ECL") for receivables from Islamic financing activities and Ijara, there is a risk that the amount of ECL may be misstated.

On adoption, the Group has applied the requirement of IFRS 9 retrospectively without restating the comparatives. The difference between previously reported carrying amount of financing assets as of 31 December 2017 and new carrying amount as of 1 January 2018, mainly arising from impairment, has been recognised in opening retained earnings.

Key areas of judgement include:

1. The identification of exposures with a significant deterioration in credit quality.
2. Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc.
3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.

How the matter was addressed during our audit:

1- We assessed the modeling techniques and methodology against the requirement of IFRS 9.
2- We tested the data, both current and historical, used in determining the ECL.
3- We tested the expected credit loss models including build and validation of models and reviewed the governance surrounding such models.
4- We examined the individual assessment carried out by the management over and above the model.
5- We tested the material modelling assumptions in addition to any overlays.
6- We examined a sample of exposures and performed procedures to determine whether significant increase in credit risk has been identified on a timely basis.
7- We checked the appropriateness of opening retained earnings adjustments mainly arising from impairment.
8- We re-performed the ECL computation for a sample of receivables from Islamic financing activities and Ijara.
9- We assessed the accuracy of disclosure in the consolidated financial statements.

Other information included in the Group's 2018 Annual Report
Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. We expect to obtain the sections of the Annual Report after the date of our auditor's opinion. Management is responsible for the other information.

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

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF AL HILAL BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Other information included in the Group's 2018 Annual Report continued

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Memorandum and Articles of Association of the Bank and the UAE Federal Law No. (2) of 2015 , and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF AL HILAL BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

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

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

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

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

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

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

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

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

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF AL HILAL BANK PJSC 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 and explanations 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 and the Memorandum and Articles of Association of the Bank;

iii) the Group has maintained proper books of account;

iv) investments in shares and stocks are included in note 13 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2018;

v) note 34 reflects the disclosures relating to related party transactions and the terms under which they were conducted;

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

Further, as required by the Resolution of the Chairman of the Abu Dhabi Accountability Authority No. (1) of 2017 pertaining to *Auditing the Financial Statements of Subject Entities*, we report that based on the procedures performed and information provided to us, nothing has come to our attention that causes us to believe that the Bank has not complied, in all material respects, with any of the provisions of the following as applicable, which would materially affect its activities or the consolidaed financial statements as at 31 December 2018:

i) Law of establishment; and
ii) relevant provisions of the applicable laws, resolutions and circulars organising the Bank's operations.

Signed by:
Raed Ahmad
Partner
Ernst & Young
Registration No. 811

20 February 2019
Abu Dhabi

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 AED'000	2017 AED'000
Assets			
Cash and balances with banks	9	7,470,011	7,048,371
Wakala deposits with banks and other financial institutions	10	2,534,470	244,794
Receivables from Islamic financing activities	11	19,636,978	21,918,259
Ijara	12	8,431,745	9,314,891
Investment securities	13	3,572,722	3,632,717
Property and equipment	14	705,208	715,949
Other assets	15	547,178	911,852
Assets held for sale	32	747,429	1,001,100
Total assets		43,645,741	44,787,933
Liabilities			
Customers' accounts	16	31,323,715	33,640,149
Wakala deposits from banks		2,596,009	1,113,215
Medium term financing	17	3,023,059	3,029,813
Other liabilities	18	943,130	1,144,825
Liabilities directly related to assets held for sale	32	270,414	337,332
Total liabilities		38,156,327	39,265,334
Equity			
Share capital	19	3,500,000	3,090,000
Tier 1 Sukuk	20	1,836,250	1,836,250
Statutory reserve	19	168,938	155,330
Other reserves	21	(215,915)	(181,039)
Retained earnings		200,141	622,058
Total equity		5,489,414	5,522,599
Total liabilities and equity		43,645,741	44,787,933

Ala'a Eraiqat
Chairman

Alexandre Coelho
Chief Executive Officer

for Adnan Badruddin Mithani
Acting Chief Financial Officer

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
Year ended 31 December 2018

	Notes	*2018* *AED'000*	*2017* *AED'000*
Profit income			
Income from Islamic financing activities, net	22	**1,115,862**	1,221,810
Income from Ijara, net	23	**436,670**	410,020
Investment income	24	**158,204**	145,284
Income from Wakala investments		**157,716**	61,288
Total profit income		**1,868,452**	1,838,402
Depositors' and sukuk holders' share of profits	28	**(754,747)**	(618,515)
Net profit income		**1,113,705**	1,219,887
Commission, fees, foreign exchange and other income, net	25	**142,866**	175,828
Net revenues		**1,256,571**	1,395,715
Operating expenses	26	**(666,411)**	(728,150)
Depreciation	14	**(54,869)**	(70,649)
Net profit before impairment charges		**535,291**	596,916
Impairment charges, net	27	**(399,327)**	(399,262)
Net profit from continuing operations		**135,964**	197,654
Discontinued operations			
Net loss from discontinued operations	32	**(30,219)**	(56,973)
Net profit		**105,745**	140,681

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

	Notes	***2018*** ***AED'000***	*2017* *AED'000*
Net profit		**105,745**	140,681
Other comprehensive loss			
Items that will not be reclassified subsequently to the consolidated statement of income			
Net loss on investment in equity securities designated at fair value through other comprehensive income		**(15,139)**	(5,355)
Directors' remuneration	34	**(3,794)**	(3,960)
		(18,933)	(9,315)
Items that may be reclassified subsequently to the consolidated statement of income			
Exchange difference on translation of foreign operations	21	**(24,440)**	294
Net loss on investment in securities designated at fair value through other comprehensive income		**(434)**	-
		(24,874)	294
Other comprehensive loss for the year		**(43,807)**	(9,021)
Total comprehensive income for the year		**61,938**	131,660

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2018

	Share capital AED'000	*Statutory reserve AED'000*	*Translation reserve AED'000*	*Fair value reserve AED'000*	*Retained earnings AED'000*	*Tier 1 Sukuk AED'000*	*Total AED'000*
Balance at 1 January 2018 (audited)	**3,090,000**	**155,330**	**(175,758)**	**(5,281)**	**622,058**	**1,836,250**	**5,522,599**
Transition adjustment on adoption of IFRS 9 (note 3)	-	-	-	-	**(403,916)**	-	**(403,916)**
Balance at 1 January 2018-adjusted	**3,090,000**	**155,330**	**(175,758)**	**(5,281)**	**218,142**	**1,836,250**	**5,118,683**
Total comprehensive income for the year							
Profit for the year	-	-	-	-	**105,745**	-	**105,745**
Other comprehensive loss							
Net loss on investment securities designated at fair value through other comprehensive income	-	-	-	**(10,436)**	**(5,137)**	-	**(15,573)**
Exchange difference on translation of foreign operations *(note 21)*	-	-	**(24,440)**	-	-	-	**(24,440)**
Directors' remuneration *(note 34)*	-	-	-	-	**(3,794)**	-	**(3,794)**
Total other comprehensive loss for the year	-	-	**(24,440)**	**(10,436)**	**(8,931)**	-	**(43,807)**
Total comprehensive income for the year	-	-	**(24,440)**	**(10,436)**	**96,814**	-	**61,938**
Transaction with owner of the Bank							
Contributions and distributions							
Issuance of share capital (note 19)	**410,000**	-	-	-	-	-	**410,000**
Tier 1 Sukuk dividends	-	-	-	-	**(101,207)**	-	**(101,207)**
Transfer to statutory reserve	-	**13,608**	-	-	**(13,608)**	-	-
Total contributions and distributions	**410,000**	**13,608**	-	-	**(114,815)**	-	**308,793**
Balance at 31 December 2018	**3,500,000**	**168,938**	**(200,198)**	**(15,717)**	**200,141**	**1,836,250**	**5,489,414**

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued
Year ended 31 December 2018

	Share capital AED'000	*Statutory reserve AED'000*	*Translation reserve AED'000*	*Fair value reserve AED'000*	*Retained earnings AED'000*	*Tier 1 Sukuk AED'000*	*Total AED'000*
Balance at 1 January 2017	3,090,000	135,558	(176,052)	5,893	600,432	1,836,250	5,492,081
Total comprehensive income for the year							
Profit for the year	-	-	-	-	140,681	-	140,681
Other comprehensive income (loss)							
Net (loss) gain on investment securities designated at fair value through other comprehensive income	-	-	-	(11,174)	5,819	-	(5,355)
Exchange difference on translation of foreign operations *(note 21)*	-	-	294	-	-	-	294
Directors' remuneration *(note 34)*	-	-	-	-	(3,960)	-	(3,960)
Total other comprehensive income (loss) for the year	-	-	294	(11,174)	1,859	-	(9,021)
Total comprehensive income for the year	-	-	294	(11,174)	142,540	-	131,660
Transaction with owner of the Bank							
Contributions and distributions							
Tier 1 Sukuk issuance cost	-	-	-	-	(148)	-	(148)
Tier 1 Sukuk dividends	-	-	-	-	(100,994)	-	(100,994)
Transfer to statutory reserve	-	19,772	-	-	(19,772)	-	-
Total contributions and distributions	-	19,772	-	-	(120,914)	-	(101,142)
Balance at 31 December 2017	3,090,000	155,330	(175,758)	(5,281)	622,058	1,836,250	5,522,599

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2018

	Notes	*2018 AED'000*	*2017 AED'000*
OPERATING ACTIVITIES			
Profit for the year		**105,745**	140,681
Adjustments for:			
Depreciation		**57,009**	71,124
Impairment charges, net		**399,327**	399,262
Unwinding on renegotiated financings		**(5,290)**	(3,958)
Realised (gain) loss on sale of investment securities		**(253)**	379
Unrealised revaluation loss (gain) on investment		**500**	(704)
Operating profit before changes in operating assets and liabilities		**557,038**	606,784
Changes in:			
Cash and bank balances with maturities over 3 months		**(1,218,991)**	(1,910,891)
Wakala deposits with banks and other financial institutions		**64,767**	12,792
Receivables from Islamic financing activities		**1,881,280**	1,400,893
Ijara		**720,097**	(733,848)
Other assets		**406,481**	29,386
Customers' accounts		**(2,316,434)**	1,449,508
Wakala deposits from banks		**825,983**	(25,391)
Other liabilities		**(370,167)**	(135,743)
Net cash flows from operating activities		**550,054**	693,490
INVESTING ACTIVITIES			
Property and equipment, net		**(46,612)**	(30,748)
Acquisition of investment securities		**(1,509,868)**	(220,136)
Proceeds from sale/ redemption of investment securities		**1,570,554**	627,499
Net cash flows (used in) from investing activities		**14,074**	376,615
FINANCING ACTIVITIES			
Issue of Share Capital	19	**410,000**	-
Tier 1 Sukuk issuance cost		**-**	(148)
Tier 1 Sukuk dividends		**(101,207)**	(100,994)
Repayment of medium term financing	17	**(6,754)**	(275,549)
Directors' remuneration	34	**(3,794)**	(3,960)
Net cash flows from (used in) financing activities		**298,245**	(380,651)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**862,373**	689,454
Cash and cash equivalents, beginning of the year		**2,737,391**	2,047,937
CASH AND CASH EQUIVALENTS AT END OF YEAR	29	**3,599,764**	2,737,391

The attached notes 1 to 39 form part of these consolidated financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Hilal Bank PJSC (the "Bank") was incorporated in Abu Dhabi, United Arab Emirates ("UAE") on 18 June 2007 by virtue of Amiri Decree number 21 of 2007, with limited liability, and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law number 8 of 1984 (as amended), Union Law number 10 of 1980 (as amended) and United Arab Emirates Federal Law number 6 of 1985 regarding Islamic banks, financial institutions and investment companies.

The Federal Law No.2 of 2015, concerning commercial companies has come into effect from 1 July 2015, replacing the existing Federal Law No.8 of 1984.

The Bank's registered office address is Al Bahr Towers, P. O. Box 63111, Abu Dhabi, United Arab Emirates.

These consolidated financial statements as at and for the year ended 31 December 2018 comprise the Bank and its subsidiaries set out in (Note 33) (together referred to as the "Group"). The Group is primarily involved in Islamic corporate, retail and investment banking activities, sales and purchase of automobiles and Islamic insurance ("Takaful"). The Bank carries out its operations through its branches in the United Arab Emirates and subsidiaries located in the United Arab Emirates and Kazakhstan.

On January 29, 2019, the Boards of Directors of Abu Dhabi Commercial Bank ("ADCB") and Union National Bank ("UNB") approved and recommended the acquisition of 100% of the issued share capital of the Bank by issuing a mandatory convertible note to the Bank's sole shareholder, Abu Dhabi Investment Council. Additional disclosure relating to acquisition are set out in note 39.

The consolidated financial statements were authorized and approved for issue by the Board of Directors on 20th February 2019.

2 BASIS OF PREPARATION

The principal accounting policies applied in the presentation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Statement of compliance

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

b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the following:

Item	*Measurement basis*
Islamic derivative financial instruments	Fair value
Financial assets at fair value through profit or loss	Fair value
Financial assets at fair value through other comprehensive income	Fair value
Investment property	Fair value
Recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships	Amortised cost adjusted for changes in fair value attributable to the risk being hedged
Asset held for sale	Lower of carrying amount and fair value less cost to sell

2 BASIS OF PREPARATION continued

c) Significant accounting judgments and estimates

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reporting amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

d) Functional and presentation currency

i) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the respective entity operates ("the functional currency"). These consolidated financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Group's presentation currency. Amounts have been rounded to nearest thousand except where otherwise indicated.

2.1 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except as noted below.

During the year, the Group has adopted the following new standards / amendments to the standards effective for the annual period beginning on or after 1 January 2018:

a) IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. For details of accounting policies of financial instruments under IAS 39, refer to Note 2 in the consolidated financial statements for the year ended December 31, 2017.

i) Classification of financial assets and financial liabilities

Financial assets

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL). A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

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

A sukuk instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

2.1 CHANGES IN ACCOUNTING POLICIES continued

a) IFRS 9 Financial Instruments continued

i) Classification of financial assets and financial liabilities continued

All other financial assets are classified as measured at FVTPL.

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

Business model assessment:

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

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

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

Assessment whether contractual cash flows are solely payments of principal and profit:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition and its related profit which is recognised using the effective profit rate method.

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

In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of profit rate.

2.1 CHANGES IN ACCOUNTING POLICIES continued

a) IFRS 9 Financial Instruments continued

i) Classification of financial assets and financial liabilities continued

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Derecognition:

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

ii) Impairment

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Receivables from Islamic financing activities;
- Ijara;
- financial assets that are sukuk instruments;
- financial guarantee contracts issued; and
- financing commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition, in which case 12-month ECL is measured.

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

Measurement of ECL

ECL are probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn commitments: as the present value of the exposure that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

2.1 CHANGES IN ACCOUNTING POLICIES continued

a) IFRS 9 Financial Instruments continued

ii) Impairment continued

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the financee, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether Islamic financing and Ijara assets carried at amortised cost and sukuk financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the financee or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the customer will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties

Write-off

A financial asset is written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

iii) Financial guarantees and financial commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified obligor fails to make payment when due, in accordance with the terms of a financing instrument. The financial guarantee liability is carried at amortised cost when payment under the contract has become probable.

‘Financial commitments’ are firm irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or irrevocable commitments to provide credit are initially measured at fair value. Subsequent to initial recognition, the Group’s liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated income statement in ‘net fees and commission income’ over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

2.1 CHANGES IN ACCOUNTING POLICIES continued

a) IFRS 9 Financial Instruments continued

iv) Islamic Financing and Ijara assets

Receivables from Islamic financing and Ijara asset captions in the statement of financial position include Islamic Financing and Ijara assets measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit method.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (Collateralized Murabaha), the arrangement is accounted for as an Islamic Financing or Ijara asset or due from banks, and the underlying asset is not recognised in the Group's financial statements.

v) Investment securities

The investment securities' caption in the statement of financial position includes:

- sukuk securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit method;
- sukuk and equity investment securities measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- sukuk securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For sukuk securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

- Profit income using the effective profit method
- ECL and reversals, and
- Foreign exchange gains and losses.

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

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

2.1 CHANGES IN ACCOUNTING POLICIES continued

a) IFRS 9 Financial Instruments continued

vi) Hedging

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation. As a result the 80-125% range under IAS 39 is replaced by an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

IFRS 9 also introduces rebalancing of hedging relationships, whereby, if a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio under IFRS 9, but the risk management objective for that designated hedging relationship remains the same, the Group shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

Gains and losses arising from effectiveness in a qualifying hedging relationship are recognized as they arise in profit and loss. When a hedging relationship is considered to be effective, the profit and loss associated with the hedging instrument and the hedged item offset each other from a profit rate risk exposure standpoint and are both recorded in profit and loss.

The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and are treated as continuing hedges.

vii) Transition

In line with the IFRS 9 transition provisions, the Group has elected to record an adjustment to its opening 1 January 2018 retained earnings to reflect the application of the new requirements of impairment, classification and measurement at the adoption date without restating comparative information.

For classification and measurement, the combined application of the contractual cash flow characteristics and business model tests as at 1 January 2018 did not have a material impact on the classification of Group's financial assets nor their carrying value, as the Group had early adopted IFRS 9 2009 'Financial Instrument: Classification and measurement'), which is consistent with the classification and measurement requirement of IFRS 9 2014. The existing hedging relationships continue to qualify and be effective under the IFRS 9 hedge accounting provisions and no transition impact was recorded on the Group's consolidated financial statements.

Except for the financial statement captions listed in the table below, there have been no changes in the carrying amounts of assets and liabilities on application of IFRS 9 as at 1 January 2018.

The following table analyses the impact arising as a result of the transition to IFRS 9. The impact relates to retained earnings. There is no impact on other components of equity.

	AED'000
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	622,058
Remeasurement of impairment under IFRS 9 and other movements	(403,916)
Opening balance under IFRS 9 (1 January 2018)	**218,142**

2.1 CHANGES IN ACCOUNTING POLICIES continued

a) IFRS 9 Financial Instruments continued

vii) Transition continued

	31 December 2017 *AED'000*	Remeasurement of impairment and other movements *AED'000*	1 January 2018 *AED'000*
Assets			
Cash and balances with banks	7,048,371	-	7,048,371
Wakala deposits with banks and other financial institutions	244,794	-	244,794
Receivables from Islamic financing activities	21,918,259	(277,866)	21,640,393
Ijara	9,314,891	(69,288)	9,245,603
Investment securities	3,632,717	(36,816)	3,595,901
Other assets	911,852	-	911,852
Total assets	**43,070,884**	**(383,970)**	**42,686,914**
Liabilities			
Customers' accounts	33,640,149	-	33,640,149
Wakala deposits from banks	1,113,215	-	1,113,215
Medium term financing	3,029,813	-	3,029,813
Other liabilities	1,144,825	19,946	1,164,771
Total liabilities	**38,928,002**	**19,946**	**38,947,948**

b) IFRS 7 Financial Instruments: Disclosures

The Group has amended the disclosures for the current year to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

2.1 CHANGES IN ACCOUNTING POLICIES continued

c) IFRS 15 Revenue from contracts with customers

This standard on revenue recognition replaces IAS 11, ‘Construction contracts’, and IAS 18,’Revenue’ and related interpretations.

IFRS 15 is more prescriptive, provides detailed guidance on revenue recognition and reduces the use of judgment in applying revenue recognition policies and practices as compared to the replaced IFRS and related interpretations.

Revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.

The core principle of IFRS 15 is that an entity recognizes revenue as it transfers the promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 also includes a comprehensive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.

The Group has assessed that the impact of IFRS 15 is not material on the consolidated financial statements of the Group as at the reporting date.

2.2 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16: Leases was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, it substantially carries forward the requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of this Standard.” In 2019, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

a) Islamic financial receivables

i) Murabaha

Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. A Murabaha contract is a sale of goods with an agreed upon profit mark up on the cost of the goods. A Murabaha contract is of two categories. In the first category, the Bank purchases the goods and makes it available for sale without any prior promise from a customer to purchase it. In the second category, the Bank purchases the goods ordered by a customer from a third party and then sells these goods to the same customer. In the latter case, the Bank purchases the goods only after a customer has made a promise to purchase them from the Bank.

3 SIGNIFICANT ACCOUNTING POLICIES continued

a) Islamic financial receivables continued

ii) Ijara Muntahia Bittamleek
A form of leasing contract which includes a promise by a lessor to transfer the ownership of the leased property to the lessee at the end of the term of the Ijara period.

iii) Wakala
A contract between the Bank and customers whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the Muwakkil.

iv) Mudaraba
Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is a partnership in profit between capital and work. It may be conducted between investment account holders as providers of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of investment account holders, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

v) Sukuk
Certificates which are equal in value and represent common shares in the ownership of a specific asset (leased or to be leased either existing or to be constructed in future), or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

vi) Musharaka
It is an agreement between two or more parties to combine their assets or to merge their services or obligations and liabilities with the aim of making profit. Profit in Musharaka is shared as per the agreed ratio whereas loss is distributed in proportion to the contribution of each partner.

b) Basis of consolidation

i) Subsidiaries
'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a financing relationship) become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. The subsidiaries consolidated in the Group financial statement are listed in note 33.

ii) Transactions eliminated on consolidation
The financial statements of the subsidiaries are prepared for the same reporting period as the Bank using consistent accounting policies. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

iii) Components of OCI
Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

3 SIGNIFICANT ACCOUNTING POLICIES continued

b) Basis of consolidation continued

iv) Loss of control
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the consolidated statement of income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

c) Foreign currency

i) Foreign currency transactions
Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective profit and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the initial transaction. Foreign currency differences arising on translation are recognised in the consolidated statement of income, except for foreign currency differences arising from the translation of non-monetary items carried at fair value through other comprehensive income which are recognised in other comprehensive income.

ii) Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into AED at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into AED at the average exchange rates for the year.

Foreign currency differences are recognised in other comprehensive income, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to non-controlling interest.

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the consolidated statement of income as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in other comprehensive income, and accumulated in the translation reserve within equity.

d) Property and equipment

i) Recognition and measurement
Property and equipment are stated at historical cost less accumulated depreciation, amortization and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Purchased software that is integral to the functionality of related equipment is capitalized as part of equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gains and losses on disposal of an item of property and equipment is recognised in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES continued

d) Property and equipment continued

ii) Subsequent costs
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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

iii) Depreciation and amortisation
Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Building	**40 years**
Leasehold improvements	**7-10 years**
Computer systems	**4 years**
Furniture and fixtures	**4-6 years**

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

e) Capital work in progress

Properties or assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes all direct cost attributable to design and construction of the property including related staff costs, and for qualifying assets, financing costs capitalised in accordance with Group's accounting policy. When the assets are ready for the intended use, the capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with the Group's policies.

f) Qard Hasan

Qard Hasan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

g) Swap transactions

Currency and profit rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or profit rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency profit rate swaps). The Group's credit risk represents the potential loss if counterparties fail to fulfill their obligations.

h) Impairment of non-financial assets

Assets that have indefinite useful life (for example, land, goodwill or intangible assets not ready for use) are not subject to amortization or depreciation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognised if the carrying amount of an asset or cash-generating units exceeds its recoverable amount.

3 SIGNIFICANT ACCOUNTING POLICIES continued

h) Impairment of non-financial assets continued

Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of impairment at each reporting date.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, balances with Central Banks, Wakala deposits with banks and financial institutions with original maturity of less than three months which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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

j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are recognised as deductions from equity.

k) Fair value reserve

The fair value reserve is related to revaluation of investment securities classified at fair value through other comprehensive income, the policy of which is set out in Note 3(n).

l) Customers' accounts and Wakala deposits from banks

Customers' accounts and Wakala deposits from banks are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost.

m) Financial instruments

Recognition and measurement
Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:

- Cash and balances with banks
- Wakala deposits with banks and other financial institutions;
- Receivables from Islamic financing activities;
- Ijara;
- Investment securities and
- Sharia compliant derivatives.

Effective 31 December 2010, the Group early adopted classification and measurement principles of IFRS 9 'Financial Instruments' in issue at that time in line with the transitional provisions of IFRS 9.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination.

Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or at fair value.

3 SIGNIFICANT ACCOUNTING POLICIES continued

m) Financial instruments continued

Classification
Financial assets at amortised cost
Financial assets are subsequently measured at amortised cost, if both 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 financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Financial assets at fair value through profit or loss ("FVTPL")
Investments in equity instruments are classified as 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.

Other financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Group. A financial asset 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 recognizing the gains or losses on them on different basis.

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

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

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 FVTOCI.

A sukuk instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

Measurement
Financial assets or financial liabilities carried at amortised cost
Financial assets at amortised cost including receivables from Islamic financing activities, Ijara and investment in sukuk securities and are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

3 SIGNIFICANT ACCOUNTING POLICIES continued

m) Financial instruments continued

Measurement continued

Financial assets or financial liabilities carried at amortised cost continued

Balances and deposits with banks and other financial institutions, Murabaha and Mudaraba with financial institutions, Murabaha, Ijara, Mudaraba and certain other Islamic financing are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Group provides funds directly to a customer with no intention of trading the receivable. Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included within 'investment income' in the consolidated income statement.

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

Investments in equity securities for which the Group has made an irrevocable election to designate as FVTOCI and sukuk instruments 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 the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity.

Where the assets are disposed off, except for sukuk measured at FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. Financial assets measured at FVTOCI are not required to be tested for impairment.

For sukuk measured at FVTOCI which are disposed off, the cumulative gain or loss previously recognised in the consolidated statement of other comprehensive income is reclassified from equity to the consolidated income statement.

For investments quoted in active market, fair value is determined by reference to quoted market prices.

For other investments, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent market transactions

Dividends on investment in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividend is established, unless the dividends clearly represent a recovery of part of the cost of investment.

3 SIGNIFICANT ACCOUNTING POLICIES continued

m) Financial instruments continued

Measurement continued

(i) Recognition / De-recognition
The Group initially recognises financial assets at fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Receivables from Islamic financing activities and Ijara are recognised on the day they are disbursed. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instrument.

A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is de-recognised when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets designated at fair value through profit or loss, and financial assets at fair value through other comprehensive income that are sold are de-recognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The Group uses the specific identification method to determine the gain or loss on de-recognition.

(ii) Offsetting of financial instruments
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right and under Sharia'a framework to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

(iii) Impairment of financial assets

Impairment assessment:
The Group assesses whether financial assets carried at amortised cost and carried at FVTOCI are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the finance customer or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a financing by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the finance customer will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Measurement of Expected Credit Losses (ECL):
The impairment of financial assets are calculated in accordance with IFRS 9 expected credit loss (ECL) model. The standard introduces a new single model for the measurement of impairment losses on all financial assets including receivables from Islamic financing activities, Ijara and sukuk measured at amortized cost or at fair value through OCI. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

The Group measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition. 12-month ECL are the portion of life time ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

ECL is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting at the initial effective profit rate. The Group has developed a range of models to estimate these parameters. For the portfolios where sufficient historical data was available, the Group developed a statistical model and for other portfolios judgmental models were developed.

3 SIGNIFICANT ACCOUNTING POLICIES continued

m) Financial instruments continued

Measurement continued
(iii) Impairment of financial assets continued

Renegotiated financing facilities

Where possible, the Bank seeks to restructure financing facilities rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Management continually reviews renegotiated facilities to ensure that all future payments are highly expected to occur.

When the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the finance customer, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the exiting asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

Purchased or originated credit impaired assets (POCI)
POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit income is subsequently recognized based on a credit-adjusted expected profit rate. Life time ECLs are only recognised or released to the extent that there is a subsequent change in the ECL.

Covered card facilities
The Group's product offering includes a variety of covered cards facilities, in which the Group has the right to cancel and/or reduce the facilities at a short notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behavior, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

Based on past experience and the Group's expectations, the period over which the Group calculates ECLs for these products, is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Write-off
Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, to the extent it is possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data such as market transactions, rental yields and audited financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES continued

n) Fair value measurement

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

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

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

o) Hedge accounting

In order to manage profit rate risks, the Group enters into Shariah compliant arrangements including profit rate swaps. These financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shari'a compliant derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Fair value hedges
When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in the consolidated statement of income together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the consolidated statement of income and other comprehensive income as the hedged item).

Cash flow hedges
When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the consolidated statement of income. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect the consolidated statement of income, and in the same line item in the consolidated statement of income and other comprehensive income.

Changes in the fair value of Islamic derivatives not designated as hedges are recorded in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES continued

o) Hedge accounting continued

Discontinuance of hedge accounting
The hedge accounting is discontinued when a hedging instrument expires, terminated or exercised or when a hedge no longer meets the criteria for hedge accounting. At that point of time, in the case of a cash flow hedge, any cumulative gain or loss on the hedging instrument that has been previously recognised in the consolidated statement of comprehensive income remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gains or losses initially recognised in equity are transferred to the consolidated statement of income.

In the case of a fair value hedge, for hedged items recorded at amortised cost, using the effective profit rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

p) Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i) Profit income
Profit income is recognised using the effective profit rate method.

The 'effective profit rate' is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective profit rate, the Group estimates future cash flows considering all contractual terms of the financial asset, but not future credit losses.

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

When a financial asset is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow required to unwind at the original effective profit rate of the instrument, and continues unwinding the discount as profit income. Profit income on impaired finance facilities and receivables is recognised using the original effective profit rate.

ii) Dividend income
Dividend income is recognised when the right to receive the income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment. Dividends on equity instruments designated at fair value through other comprehensive income are presented in other revenue in the consolidated statement of income unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in other comprehensive income.

iii) Fees and commission income, net
Fees and commission income and expense that are integral to the effective profit rate on a financial asset or financial liability are included in the measurement of the effective profit rate.

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a finance commitment is not expected to result in a drawdown of the financing, then the related finance fees are recognised on a straight-line basis over the period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3 SIGNIFICANT ACCOUNTING POLICIES continued

p) Revenue recognition continued

Gain on sale of investments
Gain or loss on disposal of fair value through profit or loss investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs and is recognised through consolidated income statement.

Gain or loss on disposal of fair value through other comprehensive income investments represents the difference between sale proceeds and their original cost less associated selling costs and is recognised through consolidated statement of comprehensive income and are included within cumulative changes in fair value reserve within equity and not recognised in the consolidated income statement.

q) Investment property

Investment property is property held for rental income or for capital appreciation, or both, but not for sale in the ordinary course of business, use in the production, supply of goods or services or for administrative purposes. Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in the consolidated statement of income.

r) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of income.

Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

s) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

t) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3 SIGNIFICANT ACCOUNTING POLICIES continued

u) Staff terminal benefits

UAE nationals employed by the Group are registered in the scheme managed by the Abu Dhabi Retirement Pensions and Benefits Fund in accordance with Law number (2) of 2000. Staff terminal benefits for expatriate employees are accounted for on the basis of their accumulated services at the reporting date and in accordance with the Group's internal policies, which comply with the applicable laws.

v) Director's remunerations

In accordance with the Ministry of Economy and Commerce interpretation of Article 169 of Federal Law No. 2 of 2015, Directors' remuneration has been treated as an appropriation from other comprehensive income.

w) Depositors' share of profits

Profit distribution is an amount accrued as an expense on the funds accepted from banks and customers in the form of Wakala deposits, Mudarabah contracts, reverse Murabaha and sukuk financing instruments and are recognised as expenses in the consolidated statement of income. The amounts are calculated in accordance with agreed terms and conditions of the Wakala and Mudarabah deposits as per Shariah ruling and principles.

x) Financial guarantees and financing commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financing commitments are firm commitments to provide credit under pre-specified terms and conditions.

For other financial guarantee contracts, financial guarantees are initially recognised at their fair value (which is the fees received on issuance). The received fees are amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment. The fees received on these financial guarantees are included within other liabilities.

y) Takaful contracts

i) Classification

The Group issues contracts that transfer either Takaful risk or both Takaful and financial risks. The Group does not issue contracts that transfer only financial risks.

Contracts under which the Group accepts significant Takaful risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as Takaful contracts.

ii) Recognition and measurement

Gross written contributions, in respect of annual policies, are recognised in the consolidated statement of income at the inception of the policy. In respect to policies with a term of more than one year, the contributions are spread over the tenure of the policies on a straight line basis, and the unexpired portion of such contributions is included under "unearned contributions" in the consolidated statement of financial position.

iii) Claims

Claims incurred comprise the settlement, the internal and external handling costs of paid and changes in the provisions for outstanding claims arising from events occurring during the year. Where applicable, deductions are made for salvage and recoveries.

3 SIGNIFICANT ACCOUNTING POLICIES continued

y) Takaful contracts *continued*

iii) Claims continued

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses and reduced by expected salvage and recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly by management.

iv) Gross claims paid
Gross claims paid are recognised in the consolidated statement of income when the claim amount payable to policyholders and third parties is determined as per the terms of the Takaful contracts.

v) Claims recovered
Claims recovered include amounts recovered from re-takaful companies in respect of the gross claims paid by the Group, in accordance with the re-takaful contracts held by the Group. It also includes salvage and claims recoveries.

vi) Gross outstanding and IBNR claims
Gross outstanding claims comprise the estimated costs of claims incurred but not settled at the consolidated statement of financial position date. Provisions for reported claims not paid as at the end of the reporting period are made on the basis of individual case estimates. This provision is based on the estimate of the loss, which will eventually be payable on each unpaid claim, established by management in the light of currently available information and past experience.

An additional net provision is also made for any claims incurred but not reported ("IBNR") at the end of the reporting period, on the basis of management estimates.

The re-takaful share of the gross outstanding claims is estimated and shown separately.

vii) Unearned contribution reserves
A provision is made for contribution deficiency arising from general Takaful contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the consolidated statement of financial position date exceeds the unearned contributions provision and already recorded claim liabilities in relation to such policies. The provision for contribution deficiency is calculated by reference to classes of business which are managed together.

viii) Re-takaful
The Group cedes re-takaful in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities, income and expense arising from ceded re-takaful contracts are presented separately from the assets, liabilities, income and expense from the related Takaful contracts because the re-takaful arrangements do not relieve the Group from its direct obligations to its policyholders.

Amounts due to and from re-takaful are accounted for in a manner consistent with the related contributions and is included in re-takaful assets.

Re-takaful assets are assessed for impairment at the end of each reporting period. A re-takaful asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the re-takaful operator. Impairment losses on re-takaful assets are recognised in the consolidated statement of income in the year in which they are incurred. Commissions in respect of re-takaful contracts are recognised on an accrual basis.

3 SIGNIFICANT ACCOUNTING POLICIES continued

y) Takaful contracts *continued*

ix) Takaful receivables and payables
Amounts due from and to policyholders, agents and re-takaful operators are financial instruments and are included in other assets and other liabilities, respectively, and not in Takaful contract provisions or re-takaful assets.

x) Liability adequacy test
At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities using current estimates of future cash flows under Takaful contracts. In performing these, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets supporting such liabilities are used. Any deficiency in the carrying amounts is immediately charged to the consolidated statement of income by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

z) 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.

aa) Investment in associates

Associates are those entities in 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. Investment in associates are accounted for using the equity method and are recognised initially at cost. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post acquisition changes in the Group’s share of the net assets of the associate, less any impairment in the value of individual investments and share of changes in the statement of changes in equity. Losses of an associate in excess of the Group’s interest in that associate (which includes any long term interests that, in substance, form part of the Bank’s net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Any excess of the cost of acquisition over the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. Any goodwill is included within the carrying amount of the investment which is assessed for impairment, at least annually, as part of that investment.

Any excess of the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, is recognised immediately in profit or loss. Where a Group’s subsidiary or other associate transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group’s interest in the relevant associate

ab) Assets held for sale

Non-current assets and associated liabilities are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is highly probable. Assets designated as held for sale are held at lower of carrying amount at designation and fair value less costs to sell. Depreciation is not charged against property and equipment classified as held for sale.

4 FINANCIAL RISK MANAGEMENT

i) *Financial risk factors*

Introduction and overview
The Group's activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Financial instruments are fundamental to the Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Group. Financial instruments create, modify or reduce the credit, market (including traded or fair value risks and non-traded or profit rate and foreign currency related risks) and liquidity risks of the Group's balance sheet.

Risk taking is core to the banking business and financial /operational risks are an inevitable consequence of such activities. The Group's aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in regulations, markets, products and emerging best practice in order to keep financial risk at a minimum and acceptable level within agreed risk appetite parameters.

The Group has exposure to many financial instruments and entails the following financial risks:

- Credit risk - The risk of financial loss where a customer or counterparty fails to meet their financial obligations;

- Market risk - The risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, profit rates and equity prices.

- Liquidity risk - The risk that the Group will be unable to fund assets and meet obligations as they become due;

- Operational risk – The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal risk but excluding strategic or reputational risk.

ii) Risk Governance and Framework

The risk management framework is integral to the operations and risk culture of the Group. The Board of Directors ("The Board") places significant importance on strong risk governance when shaping the Group's risk strategy and managing risks effectively. Risks are proactively managed within the Group with a clear policy framework of risk ownership. The framework is comprehensive and has been communicated from the Board down to individual Business lines. A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk at the Group, customer group and entity levels.

The Group's business strategy is to achieve the objective of being a strong financial player and at the same time managing risks associated with this objective effectively. The risk management framework supports this objective and promotes the transparency in the Group.

The Board approves the Group's Risk management framework, risk appetite, performance targets for the Group, the appointment of senior officers, and the delegation of authorities for credit and other risks and the establishment of effective control procedures.

4 FINANCIAL RISK MANAGEMENT continued

ii) Risk Governance and Framework continued

The Board has established a Board Risk & Governance Committee ("BRGC"), comprising members from the Board, to monitor the Group's risk including but not limited to credit, operational, market and liquidity risks. The Board has further set up from within the management, Assets and Liabilities Committee ("ALCO"), Credit & Investment Committee ("CIC"), Risk Management Committee ("RMC"), and Remedial Risk Committee ("RRC"). RMC has set-up the Information Security Committee ("ISC") as a subcommittee to ensure that proper governance is in place.

A separate and independent Risk Management Division, reporting to the BRGC, assists in the oversight of responsibility of the Board through the BRGC.

The Board has also established a Board Audit Committee, which is responsible for the independent monitoring of compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework. The Board's Audit Committee is supported in the execution of these responsibilities by the Internal Audit Department.

iii) Risk appetite

Risk appetite policy describes the quantum and types of risk that the Group is prepared to take in executing its strategy. It is central to an integrated approach to risk, capital and business management and supports the Group in achieving its return on equity objectives, as well as being a key element in meeting the Group's obligations under Basel.

The risk appetite covers both the beneficial and adverse aspects of risk. The formulation of risk appetite considers the Group's risk capacity, its financial position, and the strength of its core earnings and any potential impact on its reputation.

iv) Credit risk and concentrations of risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from Islamic financing activities, Ijara, Investments and Takaful receivables. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as obligor concentration risk and sector concentration risk).

Management of credit risk
The objective of credit risk management is to undertake an independent review and objective assessment of risk for all credit facilities as well as to both partner and challenge the businesses in defining, implementing and continually re-evaluating the risk appetite in line with the Group's policies, procedures and change in market conditions and regulations.

The Credit Management Division assesses all credit exposures and recommends approval from the designated credit committee by the Board (i.e. "CIC"), prior to facilities being committed to customers by the business unit concerned.

Credit applications for Personal banking customers are reviewed and approved by the Retail Financing and Credit team as well as the Retail Risk Management team in line with the approved policies and delegated approval authorities. Credit policies for the Personal Banking Group asset products are reviewed by the Retail Risk Policies & Portfolio Management team to ensure that the associated risks against financing are minimized.

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

Management of credit risk continued
The Risk Management Division has developed and implemented a Basel - IRB compliant internal risk grading framework in order to categorize customers according to the probability of default (PD). Each customer is rated by using a portfolio specific rating model which in turn assigns an obligor risk rating and corresponding probability of default. The obligor master risk rating scale consists of 22 grades. The responsibility for assigning risk grades lies with the concerned business unit and is independently vetted by the Credit Management Division.

For the retail portfolios, application and behavioral scorecards have been developed.

Outcome of all the risk rating models are being integrated in the Group's internal credit decision making process.

The Group has an independent Risk Analytics & Risk Architecture function within the Risk Management Division responsible for the development and validation of corporate rating models and retail scorecards on an ongoing basis.

Renewals and reviews of corporate facilities are subject to a thorough credit review process.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. Regular audits of business units and credit processes are undertaken by the Internal Audit Department.

Wholesale Banking Group portfolio review and monitoring is performed on a regular basis through risk appetite measures, concentration reports, Large Exposures Counterparties ("LEC") and other internal reports for management. Diverse industries research reports are prepared and circulated by the credit portfolio team to ensure that management is aware about the outlook of industries and fundamentals of the economy. Certain targeted reviews are also conducted by the risk management team. Credit portfolio review is conducted on a regular basis and the report is presented and discussed in RMC and BRGC.

The credit policies for the Personal Banking Group asset products are reviewed and realigned on a regular basis to ensure credit quality is maintained and is based on an on-going portfolio review and prevailing market conditions. Product policies are realigned through deep dive analysis on the portfolio which includes monthly and quarterly reviews of the portfolio.

Further assurance is also provided by an independent credit review of the credit portfolio that is undertaken by an independent credit review team separate from both the business unit and Credit Management Division. This is to ensure that the credit portfolio is maintained on a prudent basis.

Model risk management
For effective risk measurement, the Group uses a range of risk quantification models such as customer risk rating/scoring, loss given default, market risk and stress testing models. These risk models are subject to the Group's model governance policy, which prescribes guidelines across the model life cycle and establishes principles and instructions to enable an effective decision process across stakeholders in order to develop and maintain high quality risk models at Group.

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

Model risk management continued
The governance policy covers the following:

- The roles and responsibilities of stakeholders (Model Developer, Independent Validator, Approval Authority etc.),
- The minimum requirement for each of the model life cycle steps,
- The approval process,
- The minimum documentation requirement.

ECL measurement
Group credit risk is measured in terms of expected credit loss (ECL), which is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default EAD), and discounting at the initial effective profit rate.

The Bank has developed a range of models to estimate these parameters.

The assessment of credit risk and the estimation of ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

As per IFRS 9 requirements, the Group calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over the next 12 months or effective remaining life of the facility. Expected Loss at any point in time of the life of the facility is calculated using the following formula:

Expected Credit Loss (ECL) = PD*EAD*LGD
For each facility the Group calculates ECL over two forecastfest periods:

- 12 Month: ECL is calculated using 12-month forward looking PD, LGD and EAD.
- Lifetime: ECL is calculated using Lifetime forward looking PD, LGD and EAD.

12 Month or Lifetime ECL for each facility is used depending on the stage of the facility, as explained below:

- **Stage1:** where no significant increase in credit risk is observed,12 month Expected Credit Loss (ECL) is recorded as impairment provision;
- **Stage2:** where significant increase in credit risk has been observed, Life-time ECL is recorded as impairment provision;
- **Stage3:** where the exposure is defaulted or impaired, Life-time ECL is recorded as impairment provision.

Significant increase in credit risk (SICR)
The stage allocation is determined by identifying a significant increase in credit risk since initial origination. The Group assesses when significant increase in credit risk has occurred based on the quantitative and qualitative assessments. The facilities are classified as stage 2 when they meet following criteria:

Quantitative criteria: Thresholds based on absolute PD or relative PD increase compared to origination have been defined, in order to determine the significant increase in credit risk. In addition to this the bank also uses rating migration since origination for non-retail customers.

Qualitative criteria: Independent of PD, the Group also uses qualitative information to assess the significant increase in credit risk. This includes information such as watch list classification, renegotiation of the facilities and credit classification.

Backstop criteria: For retail and corporate customers, a backstop is applied and the facility is considered to have experienced a significant increase in credit risk if the finance customer is more than 30 days past due on its contractual payments.

For the cases where Group has experienced limitation on the information available at origination, certain proxy assumptions were made to estimate the rating at origination.

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

Definition of default and credit-impaired assets
The Group defines a financial instrument as in default, when it meets one or more of the following criteria:

Retail: A customer who is delinquent over 90 days past due will be classified as default or credit impaired.

Corporate: All customers currently classified/rated as below will be considered under default:

- Where classification is Substandard, Doubtful or Loss
- Risk Rating is 8, 9, and 10

The customers are classified or downgraded in the above categories, based on a comprehensive assessment of the customer's credit quality. This assessment includes review of payment history, capacity to repay and financial health.

Curing
Assets can move back to Stage 1 from Stage 2 when they no longer meet the significant increase in credit risk criteria and have completed a probation period of 12 months, defined by the Group. Similarly for the movement from Stage 3 to Stage 2, for certain portfolios, the Group's policy include probation periods whereby assets remain in Stage 3 for periods of between three to twelve months. The policy also ensures that none of the assets can move back directly to Stage 1 from Stage 3.

Measuring ECL- Explanations of input, assumptions and estimation techniques
As per IFRS 9, the ECL calculated for a facility should incorporate both current and forward-looking economic outlook over 12 months and over the remaining life of the facility.

The Group calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over forecast period (next 12 months or effective remaining life of the facility).

At the reporting date, a monthly ECL is estimated for each individual exposure for each month until the end of the forecast period. This is calculated as a simple multiplication of PD, LGD and EAD at each month. These monthly ECLs are discounted to the reporting date and the summation of these discounted monthly ECLs gives the ECL estimate. The lifetime ECL is the sum of the monthly ECLs over the remaining life, while the 12-month ECL is limited to the first 12 months.

The estimation methodology for three main components, PD, LGD and EAD is explained below:

Probability of Default (PD):

The Bank have used statistical approach to get account level PD. For retail and corporate segments, PD models are based on the internal data. The methodology adopted is logistic regression. It uses a set of financing-specific or financee-specific factors which are weighted to produce an assessment of credit risk. PD parameters are adjusted by the impact of macroeconomic forecasts in several scenarios. The impact of the economy is modeled by separate models on the segment level – thus it includes macroeconomic factors specific for a given segment.

PD model for corporate portfolio is developed on a customer level, whereas for retail portfolio models are developed on a contract level. The estimates produced from the models are 12 month point-in-time (PiT) PDs. The cohort approach is used to build the PD term structure. The actual cumulative default rates are calculated using the PD term structure for the entire lifetime of the account.

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

Measuring ECL- Explanations of input, assumptions and estimation techniques continued

Loss Given Default (LGD):

For LGD models, Workout method has been used by the Bank in modelling LGD as the calculation of realised LGDs is based on workout data. To bring all the values to the date of default point-in-time, all the recoveries are discounted using the effective contractual profit rate. The recovery period was defined as 12 months from start of default. This approach is conservative as recovery period is considered for one year due to the fact that most of the accounts would be recovered if the time window is increased.

Internal LGD estimates have been compared to market benchmark LGD and the higher of the two have been assigned for the computation of ECL.

Exposure at Default (EAD):

The EAD is the amount which the Bank expects a customer to owe in the event of default. The EAD depends on the following:

On balance sheet items: EAD for funded / single drawdown facilities shall be the actual outstanding of the financings. Lifetime computations would require cash flow patterns for these types of financings. The future cash flows are calculated and are discounted to the start of the default date. Also, the maturity of the financings shall be fixed as per the contractual terms.
Off balance sheet items: Due to data limitation, no models are developed. The Bank have used Basel CCFs to calculate EAD for undrawn amounts.

Forward-looking information incorporated in the ECL model

As per IFRS 9 requirements, forward looking economic outlook has also been incorporated in the loss calculations. The Consultants has developed a macro-economic overlay models by performing statistical analysis to establish a historical relationship of macro-economic variables with PD and components of LGD. These models depend on various macroeconomic variables and geographical economic scenarios. The macro-economic models are used to adjust the PD and LGD calculated from the base models.

The Group sources the macro-economic scenarios data from an external vendor, which uses scenarios built based on the current market conditions and outlook of their economic team. The Group uses multiple macro-economic scenarios and a weightage has been assigned to each scenario.

Credit risk monitoring
For IFRS 9 ECL computation, credit exposures are monitored and reported as per IFRS 9 requirements. Stage migrations, any exceptions to SICR criteria, other credit and impairment related matters are reviewed and approved by an appropriate management committee.

Risks of the Group’s credit portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

Group credit risk mitigation strategy
The Group operates within prudential exposure ceilings set by the Board in line with UAE Central Bank guidelines. There are well laid out processes for exception management and escalation.

The Group has adopted measures to diversify the exposures to various sectors. Diversification is achieved by limiting concentration through setting customer, industry and geographical limits.

Collateral management
Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed and the Bank seeks to ensure enforceability of the collateral. Major categories of collaterals include cash/ fixed deposits, inventories, shares, guarantees (sovereign, corporate, bank and personal guarantees), immovable properties, receivables and vehicles.

Collaterals are revalued regularly as per the bank's credit policy. In addition, ad hoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Bank to assess the fair market value of the collateral and ensure that risks are appropriately covered. Security structures and legal covenants are also subject to regular review.

Exposure to credit risk
The Group measures its exposures to credit risk by reference to the gross carrying amount of financial assets.

At 31 December 2018 and 31 December 2017, the Group's maximum exposure to credit risk before collateral held or other credit enhancements was as follows:

	Notes	*2018 AED'000*	*2017 AED'000*
Balances with banks	9	**628,520**	321,941
Wakala deposits with banks and other financial institutions	10	**2,534,470**	244,794
Receivables from Islamic financing activities	11	**21,119,259**	23,835,160
Ijara	12	**8,761,515**	9,481,633
Investment securities	13	**3,366,013**	3,220,678
Other assets	15	**334,104**	468,416
		36,743,881	37,572,622
Commitments and contingencies	30	**12,364,028**	13,533,833

The above table represents a worst case scenario of credit risk exposure of the Group at 31 December 2018 and 31 December 2017, the exposures set out above are at gross amounts.

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

At 31 December 2018 and 31 December 2017, the distribution by geographical region of major categories of assets and commitments as per Central Bank guidelines was as follows:

	United Arab Emirates AED'000	*Kazakhstan AED'000*	*Others AED'000*	*Total AED'000*
31 December 2018				
Assets				
Balances with banks *(note 9)*	**6,596,490**	**16,309**	**623,921**	**7,236,720**
Wakala deposits with banks and other financial institutions	**2,436,102**	**98,368**	**-**	**2,534,470**
Receivables from Islamic financing activities	**18,536,079**	**539,658**	**561,241**	**19,636,978**
Ijara	**8,351,179**	**66,012**	**14,554**	**8,431,745**
Investment securities	**2,883,138**	**5,725**	**683,859**	**3,572,722**
Other assets *(note 15)*	**329,136**	**4,968**	**-**	**334,104**
Total	**39,132,124**	**731,040**	**1,883,575**	**41,746,739**
Commitments and contingencies *(note 30)*	**11,171,075**	**130,134**	**1,062,819**	**12,364,028**
31 December 2017				
Assets				
Balances with banks *(note 9)*	6,476,494	4,428	321,375	6,802,297
Wakala deposits with banks and other financial institutions	139,569	105,225	-	244,794
Receivables from Islamic financing activities	20,729,681	369,262	819,316	21,918,259
Ijara	9,237,604	53,459	23,828	9,314,891
Investment securities	3,536,761	6,611	89,345	3,632,717
Other assets *(note 15)*	455,714	12,702	-	468,416
Total	40,575,823	551,687	1,253,864	42,381,374
Commitments and contingencies *(note 30)*	12,689,006	159,692	685,135	13,533,833

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

At 31 December 2018 and 31 December 2017, the distribution by sector of major categories of assets and commitments as per Central Bank guidelines was as follows:

	Government AED'000	*Public AED'000*	*Corporate / private AED'000*	*Consumers AED'000*	*Total AED'000*
31 December 2018					
Balances with banks *(note 9)*	**6,596,490**	**-**	**640,230**	**-**	**7,236,720**
Wakala deposits with banks and other financial institutions	**-**	**-**	**2,534,470**	**-**	**2,534,470**
Receivables from Islamic financing activities	**-**	**705,316**	**10,662,562**	**8,269,100**	**19,636,978**
Ijara	**77,681**	**569,014**	**4,440,148**	**3,344,902**	**8,431,745**
Investment securities	**1,638,933**	**240,285**	**1,693,504**	**-**	**3,572,722**
Other assets *(note 15)*	**-**	**-**	**-**	**334,104**	**334,104**
Total	**8,313,104**	**1,514,615**	**19,970,914**	**11,948,106**	**41,746,739**
Commitments and contingencies *(note 30)*	**19,904**	**1,491**	**11,967,500**	**375,133**	**12,364,028**

	Government AED'000	*Public AED'000*	*Corporate / private AED'000*	*Consumers AED'000*	*Total AED'000*
31 December 2017					
Balances with banks *(note 9)*	6,476,494	-	325,803	-	6,802,297
Wakala deposits with banks and other financial institutions	-	-	244,794	-	244,794
Receivables from Islamic financing activities	-	897,345	11,597,720	9,423,194	21,918,259
Ijara	-	1,595,817	4,311,761	3,407,313	9,314,891
Investment securities	1,786,007	346,739	1,499,971	-	3,632,717
Other assets *(note 15)*	-	-	-	468,416	468,416
Total	8,262,501	2,839,901	17,980,049	13,298,923	42,381,374
Commitments and contingencies *(note 30)*	903,958	852,300	10,535,830	1,241,745	13,533,833

Impairment and provisioning policies

With the adoption of IFRS 9 the incurred loss approach for impairment has been replaced by a forward looking expected credit loss (ECL) approach. The Bank recognizes an allowance for ECL for all financial instruments other than those held at fair value through profit or loss. The Group's impairment and provisioning policy is in line with IFRS and Central Bank of the UAE provision guideline.

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

Credit quality per class of financial assets

The Group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. The credit quality of financial assets is reported by the Group using internal credit ratings.

31 December 2018 (IFRS 9)	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL not credit-impaired AED'000**	**Stage 3 Lifetime ECL credit-impaired AED'000**	**Total AED'000**
Receivables from Islamic financings activities - Corporate				
Performing (Grades 1-7)	7,764,874	2,531,858	-	10,296,732
Non performing (Grades 8-10)	-	-	2,098,217	2,098,217
Gross receivables from Islamic financings activities - Corporate	7,764,874	2,531,858	2,098,217	12,394,949
Receivables from Islamic financings activities - Retail				
Performing (Grades 1-7)	8,280,750	310,250	-	8,591,000
Non performing (Grades 8-10)	-	-	133,310	133,310
Gross receivables from Islamic financings activities - Retail	8,280,750	310,250	133,310	8,724,310
Gross receivables from Islamic financings activities	16,045,624	2,842,108	2,231,527	21,119,259
Allowance for impairment	(98,162)	(395,963)	(988,156)	(1,482,281)
Total carrying amount	15,947,462	2,446,145	1,243,371	19,636,978

31 December 2018 (IFRS 9)	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL not credit- AED'000**	**Stage 3 Lifetime ECL credit- AED'000**	**Total AED'000**
Ijara - Corporate				
Performing (Grades 1-7)	4,052,019	1,012,943	4,855	5,069,817
Non performing (Grades 8-10)	-	-	129,272	129,272
Gross Ijara - Corporate	4,052,019	1,012,943	134,127	5,199,089
Ijara - Retail				
Performing (Grades 1-7)	3,166,259	232,833	-	3,399,092
Non performing (Grades 8-10)	-	-	163,334	163,334
Gross Ijara - Retail	3,166,259	232,833	163,334	3,562,426
Gross Ijara	7,218,278	1,245,776	297,461	8,761,515
Allowance for impairment	(43,180)	(183,728)	(102,862)	(329,770)
Total carrying amount	7,175,098	1,062,048	194,599	8,431,745

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

31 December 2018 (IFRS 9)	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL not credit-impaired AED'000**	**Stage 3 Lifetime ECL credit-impaired AED'000**	**Total AED'000**
Investments				
Performing (Grades 1-7)	**3,149,434**	**76,522**	**-**	**3,225,956**
Non performing (Grades 8-10)	**-**	**-**	**110,175**	**110,175**
Gross Investments	**3,149,434**	**76,522**	**110,175**	**3,336,131**
Allowance for impairment	**(5,097)**	**(2,737)**	**(28,982)**	**(36,816)**
Total carrying amount	**3,144,337**	**73,785**	**81,193**	**3,299,315**

31 December 2017 (IAS 39)	Corporate AED'000	Retail AED'000	Total AED'000
Receivables from Islamic financings activities			
Impaired and non-performing:			
Substandard	1,230,224	40,828	1,271,052
Doubtful	1,210,158	50,665	1,260,823
Legal and loss	71,544	109,578	181,122
Outstanding	2,511,926	201,071	2,712,997
Specific allowance for impairment	(1,348,811)	(147,864)	(1,496,675)
Carrying amount	1,163,115	53,207	1,216,322
Performing:			
Regular	9,210,754	9,501,145	18,711,899
Past due but not impaired			
1-29 days	1,613,720	45,506	1,659,226
30-59 days	246,524	77,006	323,530
60-89 days	78,327	51,079	129,406
Above 90 days	298,102	-	298,102
Outstanding	11,447,427	9,674,736	21,122,163
Collective allowance for impairment	(246,700)	(173,526)	(420,226)
Carrying amount	11,200,727	9,501,210	20,701,937
Total outstanding	13,959,353	9,875,807	23,835,160
Total allowance for impairment	(1,595,511)	(321,390)	(1,916,901)
Total carrying amount	12,363,842	9,554,417	21,918,259

4 FINANCIAL RISK MANAGEMENT continued

iv) ***Credit risk and concentrations of risk*** continued

31 December 2017 (IAS 39)	Corporate AED'000	Retail AED'000	Total AED'000
Ijara			
Impaired and non-performing:			
Substandard	37,928	12,232	50,160
Doubtful	-	3,676	3,676
Legal and loss	5,568	119,457	125,025
Outstanding	43,496	135,365	178,861
Specific allowance for impairment	(6,547)	(38,818)	(45,365)
Carrying amount	36,949	96,547	133,496
Performing:			
Regular	5,168,378	3,261,227	8,429,605
Past due but not impaired			
1-29 days	332,340	2,283	334,623
30-59 days	111,002	71,384	182,386
60-89 days	277,917	24,728	302,645
Above 90 days	53,513	-	53,513
Outstanding	5,943,150	3,359,622	9,302,772
Collective allowance for impairment	(88,869)	(32,508)	(121,377)
Carrying amount	5,854,281	3,327,114	9,181,395
Total outstanding	5,986,646	3,494,987	9,481,633
Total allowance for impairment	(95,416)	(71,326)	(166,742)
Total carrying amount	5,891,230	3,423,661	9,314,891

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

	31 December 2018 (IFRS 9)				31 December 2017 (IAS 39)		
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL not credit-impaired AED'000**	**Stage 3 Lifetime ECL credit-impaired AED'000**	**Total AED'000**	Specific AED'000	Collective AED'000	Total AED'000
Receivables from Islamic financings activities							
At the beginning of the year (as per IAS 39)	**420,226**	**-**	**1,496,675**	**1,916,901**	1,868,916	437,788	2,306,704
Reversal on transition to IFRS 9	**(420,226)**	**-**	**(1,496,675)**	**(1,916,901)**	-	-	-
ECL recognised under IFRS 9	**207,891**	**505,168**	**1,481,708**	**2,194,767**	-	-	-
At the beginning of the year (as per IFRS 9)	**207,891**	**505,168**	**1,481,708**	**2,194,767**	1,868,916	437,788	2,306,704
Allowances for impairment made during the year	**(109,707)**	**(103,915)**	**563,960**	**350,338**	368,088	(13,604)	354,484
Reversal due to recovery made during the year	**-**	**-**	**(259,729)**	**(259,729)**	-	-	-
Write offs, recoveries and others	**(22)**	**-**	**(797,783)**	**(797,805)**	(740,329)	-	(740,329)
Unwinding on renegotiated financings	**-**	**(5,290)**	**-**	**(5,290)**	-	(3,958)	(3,958)
							-
At the end of the year	**98,162**	**395,963**	**988,156**	**1,482,281**	1,496,675	420,226	1,916,901

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

	31 December 2018 (IFRS 9)				31 December 2017 (IAS 39)		
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL not credit-impaired AED'000**	**Stage 3 Lifetime ECL credit-impaired AED'000**	**Total AED'000**	Specific AED'000	Collective AED'000	Total AED'000
Ijara							
At the beginning of the year (as per IAS 39)	**121,377**	**-**	**45,365**	**166,742**	44,289	114,842	159,131
Reversal on transition to IFRS 9	**(121,377)**	**-**	**(45,365)**	**(166,742)**	-	-	-
ECL recognised under IFRS 9	**66,933**	**123,273**	**45,824**	**236,030**	-	-	-
At the beginning of the year (as per IFRS 9)	**66,933**	**123,273**	**45,824**	**236,030**	44,289	114,842	159,131
Allowances for impairment made during the year	**(23,753)**	**60,455**	**57,059**	**93,761**	5,516	6,535	12,051
Write offs, recoveries and others	**-**	**-**	**(21)**	**(21)**	(4,440)	-	(4,440)
At the end of the year	**43,180**	**183,728**	**102,862**	**329,770**	45,365	121,377	166,742

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

	31 December 2018 (IFRS 9)				31 December 2017 (IAS 39)		
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit-impaired AED'000	Stage 3 Lifetime ECL credit-impaired AED'000	Total AED'000	Specific AED'000	Collective AED'000	Total AED'000
Investments							
At the beginning of the year (as per IAS 39)	-	-	-	-	-	-	-
Reversal on transition to IFRS 9	-	-	-	-	-	-	-
ECL recognised under IFRS 9	4,473	32,343	-	36,816	-	-	-
At the beginning of the year (as per IFRS 9)	4,473	32,343	-	36,816	-	-	-
Allowances for impairment made during the year	624	(29,606)	28,982	-	-	-	-
At the end of the year	5,097	2,737	28,982	36,816	-	-	-

4 FINANCIAL RISK MANAGEMENT continued

iv) *Credit risk and concentrations of risk* continued

Impairment reserve under the Central Bank of UAE (CBUAE) guidance
The CB UAE issued a guidance note to banks and finance companies on the implementation of IFRS 9 on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance"). Pursuant to clause 6.4 of the guidance, a comparison between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2018 AED'000
Impairment Reserve - General	
General provisions under Circular 28/2010 of CBUAE	478,383
Less: Stage 1 and Stage 2 provisions under IFRS 9	(728,867)
General provision transferred to the impairment reserve	-
Impairment Reserve - Specific	
Specific provisions under Circular 28/2010 of CBUAE	1,178,624
Less: Stage 3 provisions under IFRS 9	(1,178,624)
Specific provision transferred to the impairment reserve	-

As per the guidance note, where provisions under IFRS 9 exceed provisions under circular 28/10 of the CBUAE, no amount required to be transfer to the impairment reserve.

Financial assets with renegotiated terms
Financial assets with renegotiated terms are facilities that have been renegotiated due to the deterioration in the customer's financial position and where the Group has made concessions that it would not otherwise consider.

As at 31 December 2018, the Group's renegotiated facilities amounted to AED 2,460,728 thousand (2017: AED 2,204,134 thousand).

Write-off of financial assets
Board approved policies are in place covering the timing and amount of provisions and write offs for all the financing portfolios of the bank. These reflect both the UAE Central bank guidelines and rules, accepted international accounting standards, and market and industry best practice and are stringently adhered to.

Settlement risk
The Group's activities may give rise to risk at the time of settlement of transactions. 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 agreed. Any delays in settlement are rare and are monitored and quantified by Risk Management Division.

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.

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

Collateral
Collateral is used to mitigate credit risk, as the secondary source of payment in case the counterparty cannot meet its contractual payment obligations. Credit policy and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval.

Credit risk mitigants are held against receivables from Islamic financing activities, Ijara finance and investments in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Group accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against Wakala deposits with banks and other financial institutions, and no such collateral was held at 31 December 2018 or 31 December 2017.

The table below shows the lower of the collateral value or the outstanding balance of the customers' financings as at the reporting date:

	2018 AED'000	*2017 AED'000*
Against customer financing not impaired		
Property	**8,820,603**	7,555,622
Securities	**563,485**	539,889
Cash margin and lien over deposit	**284,440**	279,264
Others	**1,953,149**	2,541,864
	11,621,677	10,916,639
Against individually impaired		
Property	**229,755**	215,834
Securities	**-**	222,096
Cash margin and lien over deposit	**50,367**	-
Others	**145,151**	177,039
	425,273	614,969
Total	**12,046,950**	11,531,608

The tables below stratify credit exposures from home finances retail customers by ranges of finance-to-value (FTV) ratio:

	2018 AED'000	*2017 AED'000*
FTV ratio		
Less than 50%	**1,079,935**	992,205
51-70%	**1,321,609**	1,222,230
71-90%	**889,325**	971,691
91-100%	**122,551**	94,095
More than 100%	**149,570**	214,998
Total	**3,562,990**	3,495,219

4 FINANCIAL RISK MANAGEMENT continued

v) Market risk

The Group is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, spreads, foreign exchange rates and equity prices.

Overall authority for market risk is vested in the Asset and Liability Committee ("ALCO"). The Risk Management Division is responsible for the development of detailed market and liquidity risk management policies (subject to review and approval by ALCO and BRGC) and for the day to day monitoring of the actual position versus the established limits and tolerance ranges.

Management of market risk
The Market and Liquidity Risk team is responsible for measuring market risk exposures as an independent control function in accordance with approved policies and risk appetite.

The Market and Liquidity Risk team monitors market risk exposures of daily limit monitoring and control reports that are circulated to all stakeholders to advise of current outstanding exposures versus prescribed limits and any breach is immediately advised for rectification.

Primarily, market risk in the Group is divided broadly into trading book and banking book exposures. In the trading book, the Group is exposed to various types of market risk such as equity price risk, profit rate risk, currency risk etc. The banking book primarily comprises Islamic financing activities, Ijara and investment in Sukuks measured at amortised cost which are exposed to profit rate risk.

Separate set of limits and tolerance ranges are defined for all the trading and banking book exposures in order to ensure that the market risk remains within the BRGC approved risk appetite.

The Group follows IFRS 9 guidelines for the treatment of its banking and investment portfolio exposed to market risk.

Equity price risk
The Group is exposed to price risk arising from its equity investment securities portfolio classified in the consolidated financial statements as fair value through other comprehensive income.

The table below summarizes the impact of a 10% increase / decrease in the prices of the Group's equity portfolio, on the Group's results and equity for the year ended 31 December. The analysis is based on the assumptions that all other variables will remain constant and where applicable, the Group's investments in equities primarily consist of tier 1 equity issuances and as such is considered less volatile compared to equity exposed to the relevant index.

	Impact on results and equity of the Group	
	2018	*2017*
	AED'000	*AED'000*
± 10 % change in equity prices:		
Other comprehensive income	**24,353**	41,204

4 FINANCIAL RISK MANAGEMENT continued

v) Market risk continued

Currency risk
The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, and monitors currency positions on a daily basis.

If the exchange rates between the various currencies and AED increase or decrease by 5%, with all other variables held constant, the impact on the results and equity of the Group would not be material as the exposures are primarily related to currencies that are pegged to AED. The table below indicates the extent to which the Group is exposed to currency risk and its impact:

	% Change in rate	*Effect on net profit AED'000*	*Effect on equity AED'000*
31 December 2018			
Currency			
USD	5%	**1,408**	**1,408**
EUR	5%	**24**	**24**
GBP	5%	**8**	**8**
Others	5%	**15**	**15**
KZT	5%	-	**7,658**
31 December 2017			
Currency			
USD	5%	1,945	1945
EUR	5%	793	793
GBP	5%	2	2
Others	5%	93	93
KZT	5%	-	14,136

In addition, the Group does not actively trade in foreign currency but manages all customer requests on a back to back basis, thus further reducing the risk the Group is exposed to.

Profit rate risk
The Bank is exposed to profit rate risk in the trading book due to holding Sukuk instruments which are sensitive to profit rate movement. Any change in market profit rate may lead to a fluctuation in the value of the Sukuk instruments. This impact is quantified using the duration approach and the following calculations demonstrate the impact of an assumed 200 basis points rate shock on the Group's trading book position in Sukuk instruments.

	Impact on results and equity of the Group	
	2018 AED'000	*2017 AED'000*
Impact on Sukuk Portfolio for ± 200 basis points change		
Profit and loss	**607**	1,296

4 FINANCIAL RISK MANAGEMENT continued

v) Market risk continued

Profit rate risk continued
Profit rate risk in the banking book is applicable to the Group's exposure to receivables from Islamic financing activities, Ijara as well as investment in Sukuks securities measured at amortised cost. To the extent that the profit rate sensitive assets are funded and backed by rate sensitive liabilities of identical maturities / repricing frequency the exposure is mitigated, matched funding however does not maximize profit. The Group therefore selectively accepts the gap between the repricing/ maturities of rate sensitive assets/ liabilities that maximizes profitability while remaining within defined risk tolerance and parameters.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to various standard and non-standard profit rate scenarios. Standard scenarios include a 200 basis point parallel rise in all yield curves over a twelve month horizon maintaining a constant financial position.

	Impact on results and equity of the Group	
	2018	*2017*
	AED'000	*AED'000*
+ 200 basis points change in profit rates	**4,354**	20,229

This exposure arises as a result of mismatches in re-pricing of assets and liabilities reflected in the following net position schedule.

4 FINANCIAL RISK MANAGEMENT continued

v) Market risk continued

A summary of the Group's profit rate re-pricing as at 31 December 2018 is as follows:

	Less than 3 months AED'000	*3-6 months AED'000*	*6-12 months AED'000*	*1-5 years AED'000*	*Greater than 5 years AED'000*	*Non-sensitive AED'000*	*Total AED'000*
Assets							
Cash and balances with banks	1,813,830	2,741,016	-	-	-	2,915,165	7,470,011
Wakala deposits with banks and other financial institutions	2,504,279	25,708	116	-	-	4,367	2,534,470
Receivables from Islamic financing activities	8,452,607	2,862,323	1,604,163	6,465,334	1,641,400	93,432	21,119,259
Ijara	5,554,543	2,844,553	117,858	181,959	-	62,602	8,761,515
Investment securities	117,158	-	484,024	1,266,611	1,546,888	194,857	3,609,538
Other assets	-	-	-	-	-	334,104	334,104
Assets held for sale	-	-	-	-	-	247,429	247,429
Total assets	**18,442,417**	**8,473,600**	**2,206,161**	**7,913,904**	**3,188,288**	**3,851,956**	**44,076,326**
Liabilities							
Customers' accounts	16,755,032	1,849,369	3,518,905	3,333,361	-	5,867,048	31,323,715
Wakala deposits from banks	2,232,868	249,856	-	-	-	113,285	2,596,009
Medium term financing	1,186,809	-	-	1,836,250	-	-	3,023,059
Other liabilities	-	-	-	-	-	447,373	447,373
Liabilities directly related to assets held for sale	-	-	-	-	-	270,414	270,414
Total liabilities	**20,174,709**	**2,099,225**	**3,518,905**	**5,169,611**	**-**	**6,698,120**	**37,660,570**
Total off balance sheet	**1,337,053**	**438,639**	**(251,618)**	**(440,686)**	**(1,083,388)**	**-**	**-**
Net position	**(395,239)**	**6,813,014**	**(1,564,362)**	**2,303,607**	**2,104,900**	**(2,846,164)**	**6,415,756**

4 FINANCIAL RISK MANAGEMENT continued

v) Market risk continued

A summary of the Group's profit rate re-pricing as at 31 December 2017 is as follows:

	Less than 3 months AED'000	*3-6 months AED'000*	*6-12 months AED'000*	*1-5 years AED'000*	*Greater than 5 years AED'000*	*Non-sensitive AED'000*	*Total AED'000*
Assets							
Cash and balances with banks	3,380,384	50,322	-	-	-	3,617,665	7,048,371
Wakala deposits with banks and other financial institutions	160,146	51,370	32,647	-	-	631	244,794
Receivables from Islamic financing activities	11,915,091	2,339,940	1,121,624	5,260,119	3,198,386	-	23,835,160
Ijara	5,688,451	3,429,337	59,185	491	304,169	-	9,481,633
Investment securities	670,238	194,047	133,631	1,290,784	988,826	355,191	3,632,717
Other assets	-	-	-	-	-	468,416	468,416
Assets held for sale	-	-	-	-	-	345,100	345,100
Total assets	21,814,310	6,065,016	1,347,087	6,551,394	4,491,381	4,787,003	45,056,191
Liabilities							
Customers' accounts	16,962,842	4,393,644	4,463,414	2,408,345	76,000	5,335,904	33,640,149
Wakala deposits from banks	794,078	1,156	150,058	44,805	-	123,118	1,113,215
Medium term financing	826,313	-	1,836,250	367,250	-	-	3,029,813
Other liabilities	-	-	-	-	-	727,100	727,100
Liabilities directly related to assets held for sale	-	-	-	-	-	337,332	337,332
Total liabilities	18,583,233	4,394,800	6,449,722	2,820,400	76,000	6,523,454	38,847,609
Total off balance sheet	858,204	457,001	-	(367,068)	(948,137)	-	-
Net position	4,089,281	2,127,217	(5,102,635)	3,363,926	3,467,244	(1,736,451)	6,208,582

4 FINANCIAL RISK MANAGEMENT continued

vi) Takaful and re-takaful risk

Takaful risk
Takaful risk is where the Group agrees to indemnify the insured parties against unforeseen future insured events. The frequency and severity of claims are the main risk factors. Due to the inherent risk in the Takaful business, actual claim amounts can vary compared to the outstanding claim reserves.

Re-takaful (reinsurance) risk
In order to minimize financial exposure arising from large claims, the Group, in the normal course of business, enters into Shariah compliant agreements with other parties for re-takaful (reinsurance) purposes. Such re-takaful (reinsurance) arrangements provide for greater diversification of business, allows management to control and minimise exposure to potential losses arising from large single name risks and provide additional capacity for growth and diversification.

To minimize its exposure to significant losses from re-takaful (reinsurers') insolvencies, the Group evaluates the financial condition of its re-takaful (reinsurers) and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the re-takaful (reinsurers).

Re-takaful ceded contracts do not relieve the Group from its obligations and, as a result, the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the re-takaful (reinsurance) agreements. However, the Group takes comfort in that the bulk of re-takaful (reinsurance) risks are to generally well rated and reputed reinsurers with an average external rating of A.

Reserve for claims
The Group maintains adequate reserves in respect of its Takaful business in order to protect against adverse future claims experience and developments. The uncertainties surrounding the amount and timing of claim payments are normally resolved within a year. Furthermore, the adequacy of such reserves is reviewed on annual basis by an independent external actuary with the final report shared with management on the level of reserving adequacy.

Sensitivities
The general Takaful claims provision is sensitive to certain key assumptions which are not material to the consolidated financial statements of the Group.

vii) Liquidity risk

Liquidity risk comprises mainly funding liquidity risk and market liquidity risk. Funding Liquidity Risk is the risk that the Group will be unable to meet its obligations associated with its financial liabilities. Market Liquidity Risk is the risk that the bank will be unable to sell financial assets at prevailing market price due to absence of buyers or due to lack of depth of the market thereby forcing the bank to accept a haircut in the event of forced or voluntary liquidation.

Management of liquidity risk
The Group's approach to managing liquidity is to ensure, as much as possible, that it will always have a sufficient buffer of liquidity to meet its liabilities during the normal course of business. As part of its strategic liquidity management, contingency funding planning in the Group ensures that the liquidity management center (treasury) is well equipped to tap contingent funding sources during periods of market stress. The Group also maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term financing from the Treasury Department to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The daily liquidity position is monitored by the Market and Liquidity Risk Department and regular stress testing is conducted under a variety of scenarios covering the normal and more severe market conditions in order to assess the adequacy of the contingency funding plan.

4 FINANCIAL RISK MANAGEMENT continued

vii) Liquidity risk continued

Management of liquidity risk continued
All liquidity policies and procedures are subject to regular review and approval by ALCO and the Board. Daily reports are produced covering the liquidity position of both the Group and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Group relies on customers' current accounts, saving accounts and Wakala deposits as its primary sources of funding. Customers' accounts generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Group's liquidity risk and the Group actively manages this risk through maintaining competitive pricing and constant monitoring of market trends. The Group's overall funding and liquidity risk profile improved as a result of the increase in medium term funding in the form of Sukuk issuance and Tier I Sukuk issuance each of USD 500 million during 2013 and 2014 respectively.

Exposure to liquidity risk
The key measures used by the Group for managing liquidity risk are regulatory driven ratios such as Advance to stable ratio ("ASRR"), Liquid Assets Ratio and eligible liquid asset ratio.

ASRR take into consideration the extent of stable resources (stable funding sources) which are being utilized by the financing activities of the Bank. At 31 December 2018, the Bank's ASRR was 81.74% (2017: 85.18%).

The net liquid assets ratio considers cash and balances with central banks, Central Bank certificate of deposits and short term Wakala deposits with banks maturing within one month (net of interbank placements), investment in Sukuk divided by total assets. As at 31 December 2018, this ratio stood at 25.57% (2017: 22.25%).

The eligible liquid assets ratio is calculated as per the UAE Central Bank's definition of liquid assets divided by total liabilities. The eligible liquid assets are defined by the Central Bank to include cash and cash equivalents including reserves, central bank certificates of deposits, federal government securities and issuances from local governments, non-commercial and foreign sovereign public sector entities subject to certain limits. As at 31 December 2018, this ratio stood at 23.44% (2017: 21.78%).

In addition to the above ratios the Bank also monitors internally its liquidity profile through regular ALCO briefings which are held on a monthly basis. Market and Liquidity Risk department monitors various internal and regulatory liquidity risk ratios against the limits and circulates the liquidity risk dashboard to various stakeholders in treasury and finance.

The table below sets out the availability of the Group's financial assets to future financing.

	2018 ***AED'000***	*2017* *AED'000*
Cash and balances with banks	**7,470,011**	7,048,371
Wakala deposits with banks and other financial institutions (net)	**(61,539)**	(868,421)
Investment securities	**3,572,722**	3,632,717
	10,981,194	9,812,667

As at the reporting date, the Group had no pledged or encumbered financial assets (2017: nil).

4 FINANCIAL RISK MANAGEMENT continued

vii) Liquidity risk continued

A summary of the Group's maturity profile as at 31 December 2018 is as follows:

	Carrying amount AED'000	*Gross contractual cash inflows /outflow) AED'000*	*Less than 3 months AED'000*	*3 – 12 months AED'000*	*1 – 5 years AED'000*	*Greater than 5 years AED'000*	*Total AED'000*
Assets							
Cash and balances with banks	7,470,011	7,482,703	4,730,177	2,752,526	-	-	7,482,703
Wakala deposits with banks and other financial institutions	2,534,470	2,540,894	2,506,296	29,383	861	4,354	2,540,894
Receivables from Islamic financing activities	19,636,978	24,289,737	3,286,846	5,038,131	9,031,984	6,932,776	24,289,737
Ijara	8,431,745	12,239,861	164,859	891,987	4,868,201	6,314,814	12,239,861
Investment securities	3,572,722	4,242,256	269,234	684,044	1,649,487	1,639,491	4,242,256
Other assets	334,104	334,104	334,104	-	-	-	334,104
Assets held for sale	247,429	247,429	247,429	-	-	-	247,429
Total assets	**42,227,459**	**51,376,984**	**11,538,945**	**9,396,071**	**15,550,533**	**14,891,435**	**51,376,984**
Liabilities							
Customers' accounts	31,323,715	32,368,029	22,743,947	6,044,295	3,549,980	29,807	32,368,029
Wakala deposits from banks	2,596,009	1,862,718	1,611,017	251,701	-	-	1,862,718
Medium term financing	3,023,059	3,023,059	-	1,186,809	1,836,250	-	3,023,059
Other liabilities	447,373	447,373	447,373	-	-	-	447,373
Liabilities directly related to assets held for sale	270,414	270,414	270,414	-	-	-	270,414
Total liabilities	**37,660,570**	**37,971,593**	**25,072,751**	**7,482,805**	**5,386,230**	**29,807**	**37,971,593**
Net position	**4,566,889**	**13,405,391**	**(13,533,806)**	**1,913,266**	**10,164,303**	**14,861,628**	**13,405,391**
Contingent liabilities	**5,655,881**	**5,655,881**	**316,068**	**496,783**	**383,098**	**4,459,932**	**5,655,881**
Commitments	**916,062**	**916,062**	**783,960**	**4,906**	**127,196**	**-**	**916,062**

4 FINANCIAL RISK MANAGEMENT continued

vii) Liquidity risk continued

A summary of the Group's maturity profile as at 31 December 2017 is as follows:

	Carrying amount AED'000	*Gross contractual cash inflows /outflow) AED'000*	*Less than 3 months AED'000*	*3 – 12 months AED'000*	*1 – 5 years AED'000*	*Greater than 5 years AED'000*	*Total AED'000*
Assets							
Cash and balances with banks	7,048,371	7,049,902	6,993,286	50,895	5,721	-	7,049,902
Wakala deposits with banks and other financial institutions	244,794	246,103	99,262	145,848	962	31	246,103
Receivables from Islamic financing activities	21,918,259	32,914,405	5,688,040	4,402,707	13,241,865	9,581,793	32,914,405
Ijara	9,314,891	12,424,548	316,492	1,304,428	5,252,960	5,550,668	12,424,548
Investment securities	3,632,717	4,074,566	987,678	419,185	1,657,324	1,010,379	4,074,566
Other assets	468,416	468,416	468,416	-	-	-	468,416
Assets held for sale	345,100	345,100	345,100	-	-	-	345,100
Total assets	42,972,548	57,523,040	14,898,274	6,323,063	20,158,832	16,142,871	57,523,040
Liabilities							
Customers' accounts	33,640,149	33,743,275	21,273,537	9,817,230	2,629,222	23,286	33,743,275
Wakala deposits from banks	1,113,215	748,877	748,877	-	-	-	748,877
Medium term financing	3,029,813	3,085,196	16,164	1,866,245	1,193,563	9,224	3,085,196
Other liabilities	727,100	727,100	727,100	-	-	-	727,100
Liabilities directly related to assets held for sale	337,332	337,332	337,332	-	-	-	337,332
Total liabilities	38,847,609	38,641,780	23,103,010	11,683,475	3,822,785	32,510	38,641,780
Net position	4,124,939	18,881,260	(8,204,736)	(5,360,412)	16,336,047	16,110,361	18,881,260
Contingent liabilities	5,223,432	5,223,431	4,411,007	495,053	317,371	-	5,223,431
Commitments	871,808	871,808	-	871,808	-	-	871,808

4 FINANCIAL RISK MANAGEMENT continued

viii) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal & compliance risk but excluding strategic or reputation risk.

Loss from operational risk can include fines, penalties, loss or theft of funds or assets, legal costs, customer compensation, loss of shareholder value, loss of life or injury to people, and loss of property and / or information.

All operational risks carry at least a financial consequence. Examples of operational risks that the Group is exposed to include the losses arising from internal fraud, external fraud, acts that are inconsistent with employment, health or safety laws or agreements, failure to meet professional customer and legal obligations, disruption of business or system failures, failure to execute a transaction correctly including but not limited to internal restructures, inadequate process management and failure caused by third parties.

Direct or indirect losses that occur as a result of operational failures, breakdowns, omissions or unplanned events could adversely affect the Group's financial results. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses with overall cost effectiveness and innovation. In all cases, the Group's policy requires compliance with all applicable legal and regulatory requirements. The Operational Risk team is responsible for the development and design of the Operational Risk framework, and to provide the necessary oversight on the first line of defense (business and support functions) who are responsible for the implementation of controls to address operational risks. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, where this is cost effective.

The day-to-day management of operational risk is executed through a strong "second line of defense" within business lines and control functions. Risk and Control Self Assessments (RCSAs), Key Risk Indicators (KRIs) and Incident Management (IM) form the core of the framework. Operational Risk function provides assistance to the first line of defense (business and support functions) in the implementation of the framework as-well as providing independent reporting on the effectiveness of the implementation of the operational risk framework by risk and control owners. The framework is implemented within business and control functions through the Operational Risk Community. This consists of Business Unit Operational Risk Managers ("BORMs") who are tasked with embedding the framework into the Bank.

Adherence with Group policies and procedures is supported by a programme of periodic reviews undertaken by Internal Audit. Summaries are submitted to the Board Audit Committee and senior management of the Group.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Determination of controls over investees
Management applies its judgement to determine whether the control indicators set out in *Note 3(b) (i)* indicate that the Group controls an investee.

Investment Funds
The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried profits and expected management fees) and the investors' rights to remove the fund manager. For all funds managed by the Group, the investors are able to vote by simple majority to remove the Group as fund manager without cause. As a result, the Group has concluded that it does not have to consolidate these funds.

For further disclosure in respect of unconsolidated investment funds in which the Group has an interest or for which it is a sponsor, see Note 35.

Significant items where the use of estimates and judgments are required are outlined below:

Financial instruments (applicable from 1 January 2018)
Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the consolidated financial statements of the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.

- Calculation of expected credit loss (ECL): changes to the assumptions and estimation uncertainties that have a significant impact on ECL for the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are:

<u>*Assessment of Significant Increase in Credit Risk*</u>
The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes.

The Group assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on a number of factors. If any of the factors contained in SICR criteria indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2. Following is a summary of SICR criteria:

1. For obligors not considered to have low credit risk, notches downgrade criteria compared to the origination rating and movement in Probability of Default relative to initial recognition is assessed to ascertain significant increase in credit risk.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS continued

Financial instruments (applicable from 1 January 2018) continued

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology continued

2. Additional qualitative reviews are performed in addition to the reviews performed on watch list customers and renegotiated facilities to assess the staging results and to make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.

3. IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking and Multiple Scenarios
The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables), which are closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the Group's ECL calculation will have forecasts of the relevant macroeconomic variables.

The Group estimation of ECL in Stage 1 and Stage 2 is a probability-weighted estimate that is based on future macroeconomic scenarios.

The Group base case scenario is based on macroeconomic forecasts published by an external economic research service provider. Upside and downside scenarios are also obtained from the same service provider. Scenario updates, including the identification of additional downside scenarios will occur at least on an annual basis and more frequently if conditions warrant.

Scenarios are probability-weighted according to the Group's best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on a quarterly basis (if required). All scenarios considered are applied to all portfolios subject to ECL with the same probabilities.

Sensitivity assessment due to movement in each macro-economic variable and the respective weights under several scenarios is periodically assessed by the Group.

In some instances the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments are occasionally made as temporary adjustments when such differences are significantly material. Such cases are subjected to the IFRS 9 Governance process for oversight.

Definition of default
The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected Life
When measuring ECL, the Group must consider the maximum contractual period over which the Bank is exposed to credit risk. All applicable contractual terms are considered when determining the expected life.

5 **CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS** continued

Financial instruments (applicable from 1 January 2018) continued

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology continued

Governance
In addition to the existing risk management framework, the Group has established an internal IFRS 9 Governance Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management, Credit Management and IT and they are responsible for reviewing and approving key inputs and assumptions used in the Group ECL estimates. It also assesses the appropriateness of the overall allowance results to be included in the Group financial statements.

Impairment charge on financial assets (applicable before 1 January 2018)
The Group evaluates impairment on financial assets on an ongoing basis and a comprehensive review is carried out at least quarterly to assess whether an impairment charge should be recognised in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgments about the counterparty's financial situation and other means of settlement and the net realizable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such impairment charges. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the remedial committee.

Collective impairment charge on financial assets (applicable before 1 January 2018)
In addition to specific impairment charge against individually impaired assets, the Group also maintains a collective impairment allowance against portfolios of Murabaha, Wakala, Sukuks and Islamic financing with similar economic characteristics which have not been specifically identified as impaired. In assessing the need for collective impairment charge, management considers credit quality, portfolio size and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical and current economic conditions.

Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date.

Liability arising from claims made under Takaful contracts
The estimation of the ultimate liability arising from claims made under Takaful contracts is a critical accounting estimate by the Group. There are several sources of uncertainty that need to be considered in estimating the liability that the Group will ultimately pay for such claims. The provision for claims Incurred But Not Reported ("IBNR") is an estimation of claims which are expected to be reported subsequent to the reporting date, for which the insured event has occurred prior to the reporting date.

Investment property
The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values have been determined using the comparable method. To arrive at the current market value of the property, the sale price per square foot of comparable properties was utilized.

Property and equipment
The cost of property and equipment is depreciated over its estimated useful life, which is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors.

Contingent liability arising from litigations
Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with certainty.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS continued

Impairment of non-financial assets
Certain non-financial assets, including other intangible assets, are subject to impairment review. The Group records impairment losses on assets in this category when the Group believes that their carrying value may not be recoverable. Intangible assets, property and equipment and investments in subsidiaries, associates and joint ventures are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

A reversal of an impairment loss is recognised immediately if deemed necessary by the impairment reversal reviews up to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

The recoverable amounts of these assets and where applicable, cash-generating units, have been determined based on value-in-use calculations. These calculations require the use of estimates. The determination of the recoverable amount in the impairment assessment requires estimates based on quoted market prices, prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgments and assumptions.

Because these estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change, the Group considers this estimate to be critical.

Business model
In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual profit revenues;
- the degree of frequency of any expected asset sales; and
- the reason for any asset sales.

In particular, the Group exercises judgment to determine the objective of the business model for portfolios which are held for liquidity purposes. The Treasury holds Sukuk in a separate portfolio as liquid assets.

The securities may be sold in order to meet unexpected liquidity shortfalls but such sales are not anticipated to be more than infrequent.

The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

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. The Group's investments in securities are appropriately classified and measured.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS continued

Contractual cash flows of financial assets
The Group exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and profit on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment, the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage. For financial assets in respect of which the Group's claims are limited to specific assets of the financee (non-recourse assets), the Group assesses whether the contractual terms of such financial assets limit the cash flows in a manner inconsistent with those payments representing principal and profit.

Qualifying hedge relationships
In designating financial instruments in qualifying hedge relationships, the Group has determined that it expects the hedges to be highly effective over the period of the hedging relationship.

Operating segment
In preparation of the segment information disclosure, the Group employs assumptions to arrive at the segment reporting. These assumptions are reassessed by the management on a periodic basis.

6 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

6 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as profit rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices or model inputs are usually available in the market for listed Sukuk and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as profit rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Financial instruments measured at Fair value – fair value hierarchy
The table below analyses assets and liabilities measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1 AED'000	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
31 December 2018				
Assets for which fair value is disclosed				
Sukuk at amortised cost	**3,029,474**	-	-	**3,029,474**
Assets and liabilities measured at fair value				
Equity and other investments	**537,573**	-	-	**537,573**
Profit rate swaps (Positive value)	-	**21,267**	-	**21,267**
Profit rate swaps (Negative value)	-	**(29,153)**	-	**(29,153)**
Promise to sell foreign currencies, net	-	**(703)**	-	**(703)**
Investment property	-	-	**55,230**	**55,230**
31 December 2017				
Assets for which fair value is disclosed				
Sukuk at amortised cost	3,198,599	-	-	3,198,599
Assets and liabilities measured at fair value				
Equity and other investments	449,766	-	-	449,766
Profit rate swaps (Positive value)	-	1,770	-	1,770
Profit rate swaps (Negative value)	-	(16,430)	-	(16,430)
Promise to sell foreign currencies, net	-	(214)	-	(214)
Investment property	-	-	62,400	62,400

7 OPERATING SEGMENTS

a) *Basis for segmentation*

The Group is structured into the following four segments which offer different products and services and are managed separately based on the Group's management and internal reporting structure.

Wholesale Banking Group ("WBG") provides Shariah compliant financial solutions to both the private and public sector and is organized into business divisions which include Corporate Banking, Government Relations, Institutional Banking, Syndications and Structured Finance, Capital Markets and Cash Management.

Personal Banking Group ("PBG") provides Shariah compliant products and services that are designed to meet the financial needs of individuals which include wealth management, personal financings, vehicle financings, home financings, Islamic credit cards as well as day to day banking requirements such as account management, cash transfers and cheque management.

Treasury Banking Group ("TBG") provides Shariah compliant services to handle money market, trading and other treasury services, as well as the management of the Bank's funding operations by use of investment deposits.

Reportable segment profit (loss) for Others include profit (loss) on subsidiaries and revaluation gain/loss on investment properties. Reportable segment assets and liabilities include subsidiaries, investment properties, fixed assets and other assets.

b) *Information about reportable segments*

Information related to each reportable segment is set out below. Segment profit or loss, as included in the internal management reports reviewed by the Chief Operating Decision Maker (CODM) is used to measure the performance of each segment.

Reportable segment information for the year ended 31 December 2018 and 31 December 2017 are as follows:

	PBG AED'000	*WBG AED'000*	*TBG AED'000*	*Others AED'000*	*Total AED'000*
31 December 2018					
Segment revenues, net	**580,270**	**499,156**	**148,984**	**28,161**	**1,256,571**
Operating expenses	**(463,997)**	**(147,200)**	**(73,370)**	**(36,713)**	**(721,280)**
Net operating income (loss)	**116,273**	**351,956**	**75,614**	**(8,552)**	**535,291**
Impairment charges, net	**(126,887)**	**(69,995)**	**2,142**	**(204,587)**	**(399,327)**
Loss from discontinued operations	**-**	**-**	**-**	**(30,219)**	**(30,219)**
Reportable segment (loss) profit	**(10,614)**	**281,961**	**77,756**	**(243,358)**	**105,745**
Reportable segment assets	**12,057,634**	**15,857,829**	**12,849,809**	**2,880,469**	**43,645,741**
Reportable segment liabilities	**11,029,449**	**19,917,996**	**5,272,866**	**1,936,016**	**38,156,327**
31 December 2017					
Segment revenues, net	604,092	517,920	238,912	34,791	1,395,715
Operating expenses	(512,754)	(179,104)	(57,827)	(49,114)	(798,799)
Net operating income (loss)	91,338	338,816	181,085	(14,323)	596,916
Impairment charges, net	(153,344)	(219,828)	-	(26,090)	(399,262)
Loss from discontinued operations	-	-	-	(56,973)	(56,973)
Reportable segment (loss)/ profit	(62,006)	118,988	181,085	(97,386)	140,681
Reportable segment assets	13,002,222	17,915,913	10,758,259	3,111,539	44,787,933
Reportable segment liabilities	8,119,807	25,313,220	4,166,017	1,666,290	39,265,334

7 OPERATING SEGMENTS continued

b) *Information about reportable segments* continued

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

	PBG AED'000	WBG AED'000	TBG AED'000	Others AED'000	Total AED'000
31 December 2018					
Revenue, net	**675,847**	**455,429**	**97,134**	**28,161**	**1,256,571**
Inter segment revenues	**(95,577)**	**43,727**	**51,850**	**-**	**-**
Segment revenues, net	**580,270**	**499,156**	**148,984**	**28,161**	**1,256,571**
31 December 2017					
Revenue, net	833,850	486,687	40,387	34,791	1,395,715
Inter segment revenues	(229,758)	31,233	198,525	-	-
Segment revenues, net	604,092	517,920	238,912	34,791	1,395,715

b) *Geographic information*

The Group operates primarily in the UAE and designates it as the domestic segment. The operations originating from its branches, associates and subsidiaries in the domestic segment form a significant portion of the Group's total assets and liabilities. The international segment represents the operations of the Group that originate from its presence in Kazakhstan. As the size of these operations and exposures is not significant, no further geographical analysis of segment revenues, expenses, assets and liabilities is presented.

8 CAPITAL MANAGEMENT

a) *Regulatory capital*

The Central Bank of UAE ('CBUAE') supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Effective from 2017, the capital is computed at a Group level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

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

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

b) *Minimum Capital Requirements*

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital.

Additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced over and above the minimum CET1 requirement of 7%.

8 CAPITAL MANAGEMENT continued

b) Minimum Capital Requirements continued

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

The Bank's capital base is divided into three main categories, namely CET1, AT1 and Tier 2 ('T2'), depending on their characteristics.

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- AT 1 capital comprises eligible non-common equity capital instruments.
- T2 capital comprises qualifying subordinated sukuk and undisclosed reserve.

c) Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities.

In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives.

During 2018, the Group's capital strategy, which was unchanged from the previous year is to:

- maintain capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel accord guidelines; and
- Efficiently allocate capital to various business units.

8 CAPITAL MANAGEMENT continued

The table below shows summarises the composition of Basel III regulatory capital and the ratios of the Group for the years ended 31 December 2018 and 2017. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	BASEL III 2018 AED'000	*BASEL III 2017 AED'000*
Common Equity Tier 1 (CET1) Capital		
Share capital	**3,500,000**	3,090,000
Statutory reserve	**168,108**	154,500
Cumulative changes in fair value	**(215,915)**	(181,719)
Retained earnings	**324,106**	715,949
CET1 capital before the regulatory adjustments	**3,776,299**	3,778,730
Less: Regulatory deductions	**(20,886)**	(22,865)
Total CET1 capital after deductions (A)	**3,755,413**	3,755,865
Additional Tier 1 Capital		
Eligible Additional Tier 1 Capital	**1,836,250**	1,836,250
Total Additional Tier 1 Capital (B)	**1,836,250**	1,836,250
Tier 2 Capital		
Other Tier 2 capital (including General Provisions, etc.)	**398,653**	429,569
Total Tier 2 Capital (C)	**398,653**	429,569
Total Regulatory Capital (A+B+C)	**5,990,316**	6,021,684

	BASEL III 2018 AED'000	*BASEL III 2017 AED'000*
Available capital		
Common equity tier 1 capital	**3,755,413**	3,755,865
Tier 1 capital	**5,591,663**	5,592,115
Total eligible capital	**5,990,316**	6,021,684
Risk weighted assets		
Credit risk	**31,892,257**	34,568,824
Market risk	**8,320**	29,607
Operational risk	**2,688,661**	2,831,896
Total risk weighted assets	**34,589,238**	37,430,327

8 CAPITAL MANAGEMENT continued

Capital ratios	Minimum capital requirement 2018	*2018*	*2017*
Common Equity Tier 1 capital expressed as a percentage of total risk weighted assets	10.00%	**10.86%**	10.03%
Tier 1 capital expressed as a percentage of total risk weighted assets	11.50%	**16.17%**	14.94%
Total regulatory capital expressed as a percentage of total risk weighted assets	13.50%	**17.32%**	16.09%

9 CASH AND BALANCES WITH BANKS

	2018 AED'000	*2017 AED'000*
Cash in hand	**233,291**	246,074
Current account with Central Banks	**433,881**	1,482,875
Islamic certificates of deposit with Central Bank	**4,560,847**	3,430,706
Current account with Banks	**628,520**	321,941
Cash reserve deposits with Central Banks	**1,613,472**	1,566,775
	7,470,011	7,048,371

Cash reserve deposits with Central Banks are not available for the operations of the Group and are non-profit bearing.

10 WAKALA DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 AED'000	*2017 AED'000*
Commodity Murabaha	**808,534**	-
Wakala investments	**1,725,936**	244,794
	2,534,470	244,794

All Wakala placements held by the Group as at 31 December 2018 and 2017 are in the UAE.

11 RECEIVABLES FROM ISLAMIC FINANCING ACTIVITIES

	2018 AED'000	2017 AED'000
Corporate Commodity Murabaha	**12,347,929**	13,855,359
Retail Murabaha and Musawama	**8,564,671**	9,709,460
Islamic credit card receivable	**159,639**	166,347
Other Islamic financings	**47,020**	103,994
	21,119,259	23,835,160
Allowance for impairment *(note 4(iv))*	**(1,482,281)**	(1,916,901)
	19,636,978	21,918,259

Allowances of impairment on receivables from Islamic financing activities have been disclosed in further detail in note 4(iv)

The distribution of the gross Murabaha, Musawama and other Islamic financing by industry sector and geographic region was as follows:

	2018 AED'000	2017 AED'000
Industry:		
Trade	**2,614,412**	4,069,122
Construction and Real Estate	**3,298,319**	2,666,499
Financial Institutions	**1,427,877**	1,827,081
Other Services	**1,742,517**	2,363,662
Manufacturing	**1,800,757**	1,533,549
Transport, Storage and Communication	**359,639**	231,734
Electricity, Gas and Water	**447,542**	334,896
Agriculture and Allied Activities	**249,431**	416,463
Mining and Quarrying	**148,341**	148,052
Financing to Individuals/HNIs/Others	**9,030,424**	10,244,102
	21,119,259	23,835,160
Geographic region:		
UAE	**19,859,956**	22,603,315
Kazakhstan	**545,750**	392,529
Others	**713,553**	839,316
	21,119,259	23,835,160

12 IJARA

	2018 *AED'000*	*2017* *AED'000*
Corporate Standard Ijara	**2,858,096**	3,404,170
Corporate Diminishing Musharaka	**2,340,993**	2,582,476
Retail Ijara Mawsufa Fi-aldhimma	**11,158**	10,361
Retail standard Ijara	**3,551,268**	3,484,626
	8,761,515	9,481,633
Allowance for impairment *(note 4(iv))*	**(329,770)**	(166,742)
	8,431,745	9,314,891

Ijara assets represent net investment in assets leased for periods which either approximate or cover majority of the estimated useful lives of such assets. The lease agreements stipulate that the lessor undertakes to transfer the leased assets to the lessee upon receiving the final rental payment.

Allowances of impairment on Ijara have been disclosed in further detail in note 4(iv).

The distribution of the gross Ijara by industry sector and geographic region was as follows:

	2018 *AED'000*	*2017* *AED'000*
Industry:		
Construction and Real Estate	**2,443,334**	3,286,586
Other Services	**1,319,855**	1,363,666
Transport, Storage and Communication	**734,008**	760,375
Manufacturing	**290,268**	437,833
Financial Institutions	**77,681**	-
Trade	**150,547**	37,788
Mining and Quarrying	-	1,898
Ijara to individual/HNIs/others	**3,745,822**	3,593,487
	8,761,515	9,481,633
Geographic region:		
UAE	**8,664,486**	9,397,156
Kazakhstan	**66,825**	54,272
Others	**30,204**	30,205
	8,761,515	9,481,633

13 INVESTMENT SECURITIES

	2018 AED'000	2017 AED'000
Financial assets at fair value:		
-Through profit and loss		
Sukuk securities	**29,882**	37,727
-Through other comprehensive income		
Quoted equity securities	**243,525**	412,039
Sukuk securities	**264,166**	-
Financial assets at amortised cost:		
Sukuk securities	**3,071,965**	3,182,951
	3,609,538	3,632,717
Allowance for impairment *(note 4(iv))*	**(36,816)**	-
Total investment securities	**3,572,722**	3,632,717

The investment security risk grade analysis based on external ratings is shown below:

	2018 AED'000	2017 AED'000
AA+ to A-	**1,430,595**	501,035
BBB+ to BBB-	**1,129,437**	1,627,329
BB+ to BB-	-	27,544
B+ to B-	-	28,744
CCC- to CCC+	-	31,216
Unrated	**1,049,506**	1,416,849
	3,609,538	3,632,717

In case of more than one rating by three external credit risk agencies (S&P, Fitch and Moody's), the lowest rating is applied.

Unrated Sukuk includes sovereign exposures to a local government in the UAE amounting to AED 471,860 thousand (2017: AED 570,670 thousand).

The distribution of gross investment securities by geographic region was as follows:

	2018 AED'000	2017 AED'000
Geographic region:		
UAE	**2,918,988**	3,536,761
Kazakhstan	**5,725**	6,611
Others	**684,825**	89,345
	3,609,538	3,632,717

14 PROPERTY AND EQUIPMENT

Property and equipment at 31 December 2018 comprise:

	Land and building AED'000	*Leasehold improvements AED'000*	*Computer systems AED'000*	*Furniture and fixtures AED'000*	*Capital work in progress AED'000*	*Total AED'000*
Cost:						
At 1 January 2018	634,485	219,618	275,539	108,458	15,627	1,253,727
Additions	-	1,795	11,515	639	37,875	51,824
Transfers	-	2,116	20,892	10	(23,018)	-
Disposals	(3,367)	(26,463)	(3,910)	(24,737)	-	(58,477)
Impairment (note 27)	-	(828)	-	-	(961)	(1,789)
Translation adjustments	(292)	(533)	(331)	(157)	-	(1,313)
At 31 December 2018	**630,826**	**195,705**	**303,705**	**84,213**	**29,523**	**1,243,972**
Accumulated depreciation:						
At 1 January 2018	117,405	109,632	240,224	70,517	-	537,778
Charge for the year	14,314	16,075	21,306	3,174	-	54,869
Disposals	-	(24,653)	(3,909)	(24,736)	-	(53,298)
Translation adjustments	82	(425)	(128)	(114)	-	(585)
At 31 December 2018	**131,801**	**100,629**	**257,493**	**48,841**	-	**538,764**
Net book value:						
At 31 December 2018	**499,025**	**95,076**	**46,212**	**35,372**	**29,523**	**705,208**

As of 31 December 2018, the carrying value of ATMs recorded under furniture and fixtures held under finance leases amounted to AED 9,431 thousand (31 December 2017: AED 11,147 thousand).

Included in land and building are three plots of land granted to the Bank with each having a carrying value of AED 1.

14 PROPERTY AND EQUIPMENT continued

Property and equipment at 31 December 2017 comprise:

	Land and building AED'000	*Leasehold improvements AED'000*	*Computer systems AED'000*	*Furniture and fixtures AED'000*	*Capital work in progress AED'000*	*Total AED'000*
Cost:						
At 1 January 2017	634,485	230,868	254,655	108,732	20,914	1,249,654
Additions	-	6,523	7,843	2,022	14,470	30,858
Classified as part of assets held for sale (note 32)	-	(4,848)	(2,476)	(1,114)	-	(8,438)
Transfers	-	2,188	16,084	13	(18,285)	-
Disposals	-	(13,559)	(329)	(544)	(25)	(14,457)
Impairment (note 27)	-	(1,554)	(238)	(651)	(1,447)	(3,890)
At 31 December 2017	634,485	219,618	275,539	108,458	15,627	1,253,727
Accumulated depreciation:						
At 1 January 2017	102,636	106,113	213,752	63,158	-	485,659
Charge for the year	14,769	17,996	29,057	8,827	-	70,649
Charge relating to discontinued operations (notes 32)	-	300	56	119	-	475
Classified as part of assets held for sale (note 32)	-	(1,303)	(2,312)	(1,043)	-	(4,658)
Disposals	-	(13,474)	(329)	(544)	-	(14,347)
At 31 December 2017	117,405	109,632	240,224	70,517	-	537,778
Net book value:						
At 31 December 2017	517,080	109,986	35,315	37,941	15,627	715,949

15 OTHER ASSETS

	2018 *AED'000*	*2017* *AED'000*
Financial assets		
Acceptances	**171,218**	357,531
Income receivable	**43,265**	35,112
Trade finance receivable	**36,259**	17,886
Fair value of profit rate swaps	**21,267**	1,770
Others	**62,095**	56,117
	334,104	468,416
Non financial assets		
Murabaha inventory	**17,625**	222,818
Prepaid expenses	**42,898**	56,482
Investment in Associates	**86,168**	90,201
Prepaid staff allowances	**11,153**	11,535
Investment property	**55,230**	62,400
	213,074	443,436
	547,178	911,852

Others include promises to buy and sell foreign currencies which are carried at fair value and presented within other assets and other liabilities respectively. The notional amounts of these contracts are disclosed in (Note 31) to these consolidated financial statements.

The latest available audited financial information in respect of the Group's associates is as follows:

	Global Sukuk Fund 2018 AED'000	*GCC Equity Fund 2018 AED'000*	*Global Balanced Fund 2018 AED'000*
Total assets	130,178	32,751	51,084
Total liabilities	460	371	784
Net assets	129,718	32,380	50,300
Bank's share in net assets of associates	37,394	12,147	36,627
Total revenue	(134)	2,138	(1,959)
Profit (loss) for the year	(1,725)	882	(3,512)
Bank's share in profit (loss) of associates	(497)	331	(2,557)

The fair value of the Group's investment property is categorised into level 3 of the fair value hierarchy. The fair value of the investment property was determined by an external, independent property valuer having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. To arrive at the current market value of the property, the sale price per square foot of comparable properties was utilized. Change in the fair value for the year 2018 resulted in a loss of AED 7,170 thousand (2017: AED 5,600 thousand) which was recorded under other income (note 25).

16 CUSTOMERS' ACCOUNTS

	2018 AED'000	2017 AED'000
By account:		
Wakala deposits	**19,938,750**	21,341,007
Current accounts	**5,888,047**	5,558,002
Savings accounts	**4,282,240**	4,769,389
Time deposits	**1,214,678**	1,971,751
	31,323,715	33,640,149
Industry:		
Government	**4,544,757**	4,044,142
Public	**9,989,483**	14,187,653
Corporate / private	**9,730,863**	8,545,641
Consumers	**7,058,612**	6,862,713
	31,323,715	33,640,149
Geographic region:		
UAE	**29,787,898**	32,868,382
Kazakhstan	**433,137**	288,580
Others	**1,102,680**	483,187
	31,323,715	33,640,149

17 MEDIUM TERM FINANCING

Medium Term Sukuk

On 8 October 2013, the Bank through a Shari'a compliant Sukuk arrangement raised medium term Sukuk amounting to AED 1,836,250 thousand (USD 500,000 thousand) under a USD 2,500,000 thousand Trust Certificate Issuance Programme. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin). The issuance has a contractual maturity of five years and bears an expected profit rate of 3.267%.

On 7 June 2016, the Bank through a Shari'a compliant Sukuk arrangement raised another medium term Sukuk amounting to AED 826,313 thousand (USD 225,000 thousand) under the above mentioned programme. The Sukuk has a contractual maturity of two years and seven months and bears an expected profit rate of 3 month LIBOR plus a margin of 1.60% per annum payable quarterly.

On 14 August 2017, the Bank through a Shari'a compliant Sukuk arrangement raised another medium term Sukuk amounting to AED 367,250 thousand (USD 100,000 thousand) under the above mentioned programme. The Sukuk has a contractual maturity of two years and bears an expected profit rate of 3 month LIBOR plus a margin of 0.90% per annum payable quarterly.

On 19 September 2018, the Bank through a Shari'a compliant Sukuk arrangement raised another medium term Sukuk at a discount amounting to AED 1,829,496 thousand (Par value of USD 500,000 thousand) under the USD 2,500,000 thousand Trust Certificate Programme which was updated in August 2018. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin). The issuance has a contractual maturity of five years and bears an expected profit rate of 4.375%.

17 MEDIUM TERM FINANCING continued

Terms of arrangement
The terms of the arrangement include transfer of the ownership of certain assets ("the Co-Owned Assets"), including original Ijara assets of the Bank, to a Sukuk company, AHB Sukuk Company Ltd - the Issuer, a subsidiary of the Bank, specially formed for the Sukuk transaction. The assets are owned by the investors; however the assets are managed by the Bank and shall continue to be serviced by the Bank as the managing agent.

The issuer will pay the semi-annual distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the semi annual amount payable to the Sukuk holders on the distribution dates. Upon maturity of the Sukuk, the Issuer will have the right to require the Bank to purchase all of the co-owned Assets for payment of the relevant dissolution distribution amount under Sukuk which includes the outstanding face amount of Sukuks and any accrued but unpaid periodic distribution.

18 OTHER LIABILITIES

	2018 *AED'000*	*2017* *AED'000*
Financial liabilities		
Acceptances	**171,218**	357,531
Accounts payable	**207,668**	340,509
Fair value of profit rate swaps	**29,153**	16,430
Finance lease obligation (note 37)	**7,044**	9,229
Others	**21,517**	169
Charity payable	**10,773**	3,232
	447,373	727,100
Non financial liabilities		
Accrued expenses	**392,072**	346,606
Other facilities allowance	**58,624**	9,510
Advance administrative fees	**45,061**	61,609
	495,757	417,725
	943,130	1,144,825

Others include promises to buy and sell foreign currencies which are carried at fair value and presented within other assets and other liabilities respectively. The notional amounts of these contracts are disclosed in (Note 31) to these consolidated financial statements.

Accrued expenses also include an amount of AED 3,651 thousand (2017: AED 4,719 thousand) of depositors profit reserve and the zakat due on these reserves. The Group is discharging this Zakat on behalf of the depositors.

Charity payable represents profits forfeited by the Fatwa and Shariah Supervisory Board, late payment amount and over limit fees.

19 SHARE CAPITAL AND STATUTORY RESERVE

Share capital
The authorized share capital of the Bank comprise of 4,000,000 thousand ordinary shares of AED 1 each. The issued and fully paid up share capital at 31 December 2018 comprise of 3,500,000 thousand ordinary shares of AED 1 each (2017: 3,090,000 thousand ordinary shares of AED 1 each).

In June 2018, the Bank increased issued and fully paid up share capital by AED 410,000 thousand.

Abu Dhabi Investment Council holds 100% of the issued and paid share capital. The Bank's shares are not listed on a recognised stock exchange.

Directors remuneration amounting to AED 3,794 thousand (31 December 2017: AED 3,960 thousand) has been charged to the statement of comprehensive income. Had directors' remuneration been presented through the consolidated statement of income, the profit for the year attributable to the equity holder of the Bank would have been reduced by AED 3,794 thousand (2017: AED 3,960 thousand).

Statutory reserve
The UAE Federal Law No.2 of 2015 and the Bank's Articles of Association require that 10% of the annual net profit to be transferred to a statutory reserve until it equals 50% of the paid-up share capital. The statutory reserve is not available for distribution. During the year, AED 13,608 thousand (2017: AED 19,772 thousand) has been transferred to the statutory reserve.

20 TIER 1 SUKUK

On 30 June 2014, the Bank through a Shariah compliant Sukuk arrangement issued Tier 1 Sukuk at face value of AED 1,836,250 thousand (USD 500,000 thousand) listed on the Irish Stock Exchange.

Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba agreement. It is callable by the Bank on 30 June 2019 (the "First Call Date") or any profit payment date thereafter subject to certain conditions.

It bears an expected Mudaraba profit rate of 5.50% payable semi-annually in arrears until the First Call Date. On the First Call Date and every five years thereafter it is reset to a new expected Mudaraba profit rate equal to the five-year US dollar mid swap rate plus a margin of 3.73% per annum.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. Additionally, any periodic distribution amount not paid as aforesaid will not accumulate and neither the Trustee nor the Certificate holders shall have any claim in respect thereof. In the case of a non-payment election or a non-payment event, from the date of such non-payment, the Bank will not (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on; and (b) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any class of shares issued by the Bank or any securities of the Bank ranking pari passu with or junior to the Tier 1 Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of next following expected Mudaraba profit distribution.

21 OTHER RESERVES

	Fair value reserve AED'000	Foreign currency translation reserve AED'000	Total AED'000
1 January 2017	5,893	(176,052)	(170,159)
Net loss on investment securities designated at fair value through other comprehensive income	(11,174)	-	(11,174)
Exchange differences on translation of foreign operations	-	294	294
1 January 2018	**(5,281)**	**(175,758)**	**(181,039)**
Net loss on investment securities designated at fair value through other comprehensive income	**(10,436)**	-	**(10,436)**
Exchange differences on translation of foreign operations	-	**(24,440)**	**(24,440)**
31 December 2018	**(15,717)**	**(200,198)**	**(215,915)**

22 INCOME FROM ISLAMIC FINANCING ACTIVITIES, NET

	2018 AED'000	*2017 AED'000*
Income from Murabaha – corporate	**532,351**	510,597
Income from Musawama & Murabaha – retail	**580,438**	706,774
Other Islamic financing	**3,073**	4,439
	1,115,862	1,221,810

Profit suspended on impaired Islamic Financing Activities amounted to AED 169,348 thousand (2017: AED 270,242 thousand).

23 INCOME FROM IJARA, NET

	2018 AED'000	*2017 AED'000*
Income from Ijara – corporate	**148,766**	155,378
Income from Musharaka – corporate	**123,014**	111,404
Income from Ijara – retail	**164,890**	143,238
	436,670	410,020

Profit suspended on Ijara amounted to AED 103,070 thousand (2017: AED 59,334 thousand).

24 INVESTMENT INCOME

	2018 AED'000	*2017 AED'000*
Income from Sukuk	**120,121**	110,788
Dividend income	**31,348**	31,372
Realised gain (loss) on sale of investment securities	**253**	(379)
Unrealised (loss) gain on investment securities	**(500)**	704
Gain from other investment assets	**6,982**	2,799
	158,204	145,284

25 COMMISSION, FEES, FOREIGN EXCHANGE AND OTHER INCOME, NET

	2018 AED'000	*2017 AED'000*
Fees and commission, net	**138,203**	156,081
Foreign exchange , net	**23,162**	20,982
Other expense, net	**(18,499)**	(1,235)
	142,866	175,828

Commission, fees and foreign exchange income constitute part of profit distributable to the Shareholder.

26 OPERATING EXPENSES

	2018 AED'000	*2017 AED'000*
Personnel and related expenses	**479,623**	513,140
Premises expenses	**44,716**	46,670
Rent expenses	**30,857**	56,907
Legal and professional fees	**28,121**	25,297
Software maintenance	**17,917**	19,383
Communication expenses	**12,756**	14,276
Marketing and advertising expenses	**12,519**	17,606
Hardware maintenance	**4,115**	5,770
Printing and office supplies	**6,643**	9,287
Other expenses	**29,144**	19,814
	666,411	728,150

27 IMPAIRMENT CHARGES, NET

	Ijara		*Receivables from Islamic financing activities*		*Investments*		*Others*		*Total*	
	2018 AED'000	*2017 AED'000*	***2018 AED'000***	*2017 AED'000*	***2018 AED'000***	*2017 AED'000*	***2018 AED'000***	*2017 AED'000*	***2018 AED'000***	*2017 AED'000*
At the beginning of the year (as per IAS 39)	**166,742**	159,131	**1,916,901**	2,306,704	**-**	-	**46,427**	17,074	**2,130,070**	2,482,909
Opening adjustments on adoption of IFRS 9	**69,288**	-	**277,866**	-	**36,816**	-	**19,946**	-	**403,916**	-
At the beginning of the year (as per IFRS 9)	**236,030**	159,131	**2,194,767**	2,306,704	**36,816**	-	**66,373**	17,074	**2,533,986**	2,482,909
Net charges for the year	**93,761**	12,051	**350,338**	354,484	**-**	-	**29,168**	5,703	**473,267**	372,238
Other provisions	**-**	-	**-**	-	**-**	-	**28,000**	-	**28,000**	-
Reversal due to recovery made during the year	**-**	-	**(259,729)**	-	**-**	-	**-**	-	**(259,729)**	-
Impairment of property and equipment (note 14)	**-**	-	**-**	-	**-**	-	**1,789**	3,890	**1,789**	3,890
Impairment charges on asset held for sale (note 32)	**-**	-	**-**	-	**-**	-	**156,000**	23,134	**156,000**	23,134
Write offs and others	**(21)**	(4,440)	**(797,805)**	(740,329)	**-**	-	**(11,300)**	(3,374)	**(809,126)**	(748,143)
Unwinding on renegotiated financings	**-**	-	**(5,290)**	(3,958)	**-**	-		-	**(5,290)**	(3,958)
At the end of the year	**329,770**	166,742	**1,482,281**	1,916,901	**36,816**	-	**270,030**	46,427	**2,118,897**	2,130,070

28 DEPOSITORS' AND SUKUK HOLDERS' SHARE OF PROFITS

	2018 *AED'000*	*2017* *AED'000*
Wakala	**519,133**	408,558
Profit rate swap	**70,395**	44,684
Mudaraba	**47,613**	63,889
Medium term financing	**117,606**	101,384
	754,747	618,515

Profit rate swap expense is set off by profit rate swap revenue of AED 65,824 thousand (31 December 2017: AED 30,083 thousand).

The Bank invests all of its investment deposits including saving accounts, adjusted for UAE Central Bank reserve requirements and the Group's liquidity requirements. With respect to investment deposits, the Bank is liable only in case of willful misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil).

The profit distribution for the year has been supported by the Shareholder and is authorized by the Bank's Internal Shariah Control Committee.

During 2018, distributable gains generated by Wakala pool were not sufficient to cover the profits paid to depositors therefore shareholders' donation of AED 8,904 thousand was provided.

29 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following amounts with original contractual maturities of less than three months:

	2018 *AED'000*	*2017* *AED'000*
Cash and balances with banks	**2,770,173**	3,567,524
Wakala deposits with banks and other financial institutions	**2,534,470**	200,027
Wakala deposits from banks	**(1,719,849)**	(1,063,038)
	3,584,794	2,704,513
Calssified as part of assets directly related to discontinued operations	**14,970**	32,878
	3,599,764	2,737,391

30 COMMITMENTS AND CONTINGENCIES

	2018 *AED'000*	*2017* *AED'000*
Letters of credit	**376,670**	516,499
Letters of guarantee	**5,279,211**	4,706,933
Irrevocable commitments to extend credit	**916,062**	871,808
Revocable commitments to extend credit	**5,792,085**	7,438,593
Capital commitments	**45,586**	35,769
Operating lease commitments	**164,237**	164,896

31 ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group enters into various types of transactions that involve Islamic derivative financial instruments. Islamic derivative financial instruments include Islamic promises to exchange currency and / or cash flows.

Islamic derivatives are measured at fair value by reference to published price quotations in an active market, counterparty prices or valuation techniques such as discounted cash flows.

The table below shows the positive and negative fair values of Islamic derivative financial instruments together with the notional amounts.

The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

31 ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS continued

Unrealised valuation gains (losses) on Islamic derivatives covering the banking book are matched by unrealised valuation gains on hedged items amounting to AED 2,010 thousand (2017: AED 19,502 thousand).

	Positive market value AED'000	*Negative market value AED'000*	*Notional amount AED'000*	*Less than 3 months AED'000*	*3-12 months AED'000*	*1-5 years AED'000*	*Total AED'000*
31-Dec-18							
Islamic derivatives held for trading							
Profit rate swaps	**6,376**	**(6,376)**	**1,315,591**	**-**	**-**	**1,315,591**	**1,315,591**
Promises to sell foreign currencies	**-**	**(703)**	**1,385,893**	**828,757**	**557,136**	**-**	**1,385,893**
	6,376	**(7,079)**	**2,701,484**	**828,757**	**557,136**	**1,315,591**	**2,701,484**
Islamic derivatives held for hedging purposes							
Profit rate swaps	**2,010**	**-**	**1,775,692**	**-**	**251,618**	**1,524,074**	**1,775,692**
	8,386	**(7,079)**	**4,477,176**	**828,757**	**808,754**	**2,839,665**	**4,477,176**
31 December 2017							
Islamic derivatives held for trading							
Profit rate swaps	1,382	(1,382)	526,371	-	37,210	489,161	526,371
Promises to sell foreign currencies	36	(250)	825,020	825,020	-	-	825,020
	1,418	(1,632)	1,351,391	825,020	37,210	489,161	1,351,391
Islamic derivatives held for hedging purposes							
Profit rate swaps	-	(19,502)	1,373,974	27,552	31,216	1,315,206	1,373,974
	1,418	(21,134)	2,725,365	852,572	68,426	1,804,367	2,725,365

32 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Discontinued operations and assets held for sale comprise of the following:

	2018 AED'000	*2017 AED'000*
Assets directly related to discontinued operations (subsidiaries) (i)	**247,429**	345,100
Asset held for sale - Building (and the related land) (ii)	**500,000**	656,000
Assets held for sale	**747,429**	1,001,100
Liabilities directly related to discontinued operations (subsidiaries) (i)	**270,414**	337,332
Net assets held for sale	**477,015**	663,768

(i) DISCONTINUED OPERATIONS

The Board of Directors of the Group resolved to sell and discontinue the following subsidiaries:

Subsidiaries	*Holding*	*Year*
Al Hilal Takaful PSC	100%	2017
Al Hilal Auto LLC	100%	2016

The classes of assets and liabilities comprising the operations classified as discontinued operations at 31 December were as follows:

	2018 *AED'000*	2017 *AED'000*
Consolidated Statement of Financial Position		
Cash and balances with banks	**14,970**	32,878
Wakala deposits with banks and other financial institutions	**15,000**	35,000
Investment securities	**3**	16,514
Property and equipment	**2,335**	3,780
Other assets	**215,121**	256,928
Assets directly related to discontinued operations	**247,429**	345,100
Other liabilities	**270,414**	337,332
Liabilities directly related to discontinued operations	**270,414**	337,332
Net assets directly related to discontinued oeprations	**(22,985)**	7,768

	2018 *AED'000*	2017 *AED'000*
Loss from discontinued operations:		
Investment income	**352**	1,273
Income from Wakala investments	**1,179**	9,039
Commission, fees, foreign exchange and other income, net	**11,982**	(32,023)
Operating expenses	**(41,592)**	(34,787)
Depreciation	**(2,140)**	(475)
Loss for the year from discontinued operations	**(30,219)**	(56,973)

32 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE continued

(i) DISCONTINUED OPERATIONS continued

The cash flows associated with the sale of Al Hilal Takaful are expected to be within 6 months of the balance sheet date. The cash flows associated with the discontinued operation of Al Hilal Auto are expected to be within 3 months of the balance sheet date.

	2018	2017
	AED'000	*AED'000*
Cash flows from discontinued operations:		
Net cash outflows from investing activities	**(33,724)**	53,644
Net cash outflows used in financing activities	**15,816**	(20,766)
Net cash outflows	**(17,908)**	32,878

(ii) ASSET HELD FOR SALE - BUILDING (AND THE RELATED LAND)

Assets held for sale represent a building (and the related land) that was completed during the year 2015. The Bank is committed to a plan to sell the asset. A write down of AED 156,000 thousand (2017: AED 23,000 thousand) was recognised as at 31 December 2018 to reduce the carrying amount of the building to its fair value less cost to sell (Note 27).

33 GROUP ENTITIES

Subsidiaries	*Country of incorporation*	*Ownership* ***2018***	*2017*
Al Hilal Takaful PSC*	UAE	**100%**	100%
Al Hilal Auto LLC**	UAE	**100%**	100%
Al Hilal Islamic Bank PJSC	Kazakhstan	**100%**	100%
Al Hilal Leasing LLP	Kazakhstan	**100%**	100%
Al Hilal Al Mariah Development LLC	UAE	**100%**	100%
AHB Sukuk Company Limited	Cayman	-	-
AHB Tier 1 Sukuk Limited	Cayman	-	-
AHB derivatives Limited	Cayman	-	-

* Al Hilal Takaful PSC was classified as held for sale during 2017. Please refer to Note 32 for further details.

** Al Hilal Auto LLC was discontinued during the year 2016. Please refer to Note 32 for further details.

The Group does not have direct holding in AHB Sukuk Company Limited, AHB Tier 1 Sukuk Limited and AHB derivatives Limited, which are considered to be a subsidiary by virtue of control.

34 RELATED PARTIES

Identity of related parties
Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholders, directors and key management personnel of the Group. The terms of these transactions are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

Parent and ultimate controlling party
Abu Dhabi Investment Council holds 100% of the issued and fully paid share capital. The Bank's shares are not listed on a recognised stock exchange.

Compensation of directors and key management personnel
Key management remuneration for the years ended 31 December 2018 and 31 December 2017 comprise:

	2018 *AED'000*	*2017* *AED'000*
Short term employment benefits	**23,885**	25,678
Directors' remuneration	**3,794**	3,960
Post employment benefits	**1,528**	1,405

Terms and conditions
Islamic financing and deposits are granted and accepted in various currency denominations and for various time periods from related parties. Profit rates earned on Murabaha financing facilities extended to related parties during the year have ranged from 2.00% to 7.30% per annum (2017: 1.13% to 6.00%).

Profit distribution rates paid on customers' investment accounts placed by related parties during the year have ranged from 1.75% to 3.80% per annum (2017: 1.10% to 1.90%).

Fees and commissions earned on transactions with related parties during the year have ranged from 0.40% to 3.00% per annum (2017: 0.40% to 3.00%).

Collaterals against financing to related parties range from being unsecured to fully secure.

Except for transactions carried out with the ultimate Parent and its group of companies, all transactions with the government and its related concerns are deemed to occur within the normal course of business.

34 RELATED PARTIES continued

Particulars of transactions with related parties, disclosed pursuant to the requirements of IAS 24, are shown below. The balances and transactions with related parties comprise:

	Parent AED'000	*Directors and key management AED'000*	*Parent's subsidiaries AED'000*	*Others AED'000*	*Total AED'000*
Balances: 31 December 2018					
Receivables from Islamic financing activities and Ijara	**701,001**	**22,214**	**50,588**	-	**773,803**
Wakala deposits with banks and other financial institutions	-	-	**808,534**	-	**808,534**
Customers' accounts	**580,368**	**54,753**	**11,476**	-	**646,597**
Wakala deposits (included in customers' accounts)	**7,572,401**	**5,000**	**10,000**	**2,749,869**	**10,337,270**
Other liabilities	**53,853**	**2**	**2,827**	**43,683**	**100,365**
Undrawn facilities commitments	**432,500**	**766**	**55,888**	-	**489,154**
Guarantees	**1,313,068**	-	**10,149**	-	**1,323,217**
Balances: 31 December 2017					
Receivables from Islamic financing activities and Ijara	-	10,217	57,360	-	67,577
Other assets	-	-	2,941	-	2,941
Customers' accounts	5	27,424	10,746	-	38,175
Wakala deposits (included in customers' accounts)	2,354,896	-	-	2,731,428	5,086,324
Other liabilities	86,180	-	2,048	-	88,228
Undrawn facilities commitments	-	362	47,740	-	48,102
Guarantees	-	-	10,952	-	10,952

	Parent AED'000	*Directors and key management AED'000*	*Parent's subsidiaries AED'000*	*Others AED'000*	*Total AED'000*
Transactions: 31 December 2018					
Financing income	**35,618**	**579**	**2,073**	-	**38,270**
Commission, fees and foreign exchange income, net	**9,516**	**115**	**723**	-	**10,354**
Income from Wakala investments	-	-	**41,864**	-	**41,864**
Investment income	-	-	**5,721**	-	**5,721**
Profit distribution	**211,015**	**215**	**40,426**	**66,356**	**318,012**
Transactions: 31 December 2017					
Financing income	-	686	3,760	1,838	6,284
Commission, fees and foreign exchange income, net	-	548	182	-	730
Income from Wakala investments	-	-	15,738	-	15,738
Investment income					-
Profit distribution	39,215	94	24,039	48,742	112,090

*The Bank entered into a foreign exchange swap, where the loss was with a related party and the gain with a non-related party.

35 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

Name of entity	***Interest held by the Group 2018***	*Interest held by the Group 2017*
Al Hilal Global Sukuk Fund	**Associate (note 15)**	Associate (note 15)
Al Hilal GCC Equity Fund	**Associate (note 15)**	Associate (note 15)
Al Hilal Global Balanced Fund	**Associate (note 15)**	Associate (note 15)

36 FUND MANAGEMENT AND FIDUCIARY ACTIVITIES

The Group manages and administers assets held in trust or in fiduciary capacity on behalf of its customers. The underlying assets held in a custodial or fiduciary capacity are excluded from the consolidated financial statements of the Group.

The management fees earned by the Group from its fund management activities as per latest audited financial statements dated 31 December 2018 was AED 2,675 thousand (2017: AED 2,755 thousand).

37 FINANCE LEASE

During 2016, the Bank entered into a commercial lease contract for its ATM's. The lease term is six years with no renewal option. The Bank has determined that the lease arrangement constitutes a finance lease given that the ownership of the ATMs will be transferred to the Bank at the end of the lease term.

Future minimum lease payments under the finance lease are as follows.

	31 December 2018 AED'000		*31 December 2017 AED'000*	
	Minimum payments	***Present value of payments***	*Minimum payments*	*Present value of payments*
Less than one year	**2,507**	**2,507**	2,507	2,507
Greater than one year but not more than five years	**5,015**	**4,537**	7,522	6,722
Total minimum lease payments	**7,522**	**7,044**	10,029	9,229
Less: future finance charges	**478**	**-**	800	-
Present value of minimum lease payments	**7,044**	**7,044**	9,229	9,229

38 ZAKAT

The Articles of Association of the Bank do not require the Bank to pay Zakat on behalf of the Shareholder. Consequently, the Zakat obligation is to be assessed and discharged by the Shareholder.

39 SUBSEQUENT EVENTS

On January 29, 2019, the Boards of Directors of ADCB and UNB approved and recommended the acquisition of 100% of the issued share capital of the Bank subsequent to an approved merger between both banks by issuing a mandatory convertible note to the Bank's sole shareholder, Abu Dhabi Investment Council. The note will be convertible into 117,647,058 post-merger ADCB shares.

The merger and subsequent acquisition are subject to approval from the shareholders of ADCB, UNB and the Bank at their respective general assembly meetings and from the relevant regulatory authorities.