Al Hilal Bank PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

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 2017

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Chairman's Report

بســم الله الرحمن الرحــيم

In the name of Allah, the Most Gracious, the Most Merciful

On behalf of Al Hilal Bank's Board of Directors, I am pleased to present our Consolidated Financial Statements for the year ended 31 December 2017.

We welcomed the appointment of Alex Coelho in April 2017 as our new Chief Executive Officer together with a new senior management team responsible for executing the Bank's 2020 strategic plan. Significant events in 2017 also included the decision to sell non-core assets including our Takaful business with sale completion expected in early 2018 subject to final regulatory approvals. The sale is in line with the Bank's focus on core business activities and driving efficiencies.

The Business Environment in 2017

The non-oil sector growth remained highly resilient reflecting higher public investment and a pick-up in global trade. Overall GDP growth is expected to be moderate for 2017 with competition across the Banking sector consistent with recent years.

Key Financial Highlights

Net profit increased 12.9 per cent to AED 140.7 million, despite net losses from discontinued operations. The significantly improved cost income ratio of 57.2% (61.8% in 2016) reflects an increase in net revenues of 5.5 per cent and a reduction in expenses of 2.3 per cent. Credit related impairments were in line with last year with additional impairments on our investment properties.
Total assets increased 3.1 per cent to AED 44.8 billion. The decrease in receivables from Islamic financing activities and Ijara of 3.2 per cent reflected the Bank's focus on high quality assets and prioritizing new financing activity on customers who require additional products and services. The Bank increased current and saving accounts by 3.2 per cent to AED 10.3 billion.

Emiratization

The Bank has hired more UAE Nationals in 2017 than the last two years. This has been achieved through the creation of a RUWWAD graduate program as well as the increased focus on attracting, retaining and developing our talent through high quality development programs. The success in 2017 reflects the Board and Executive Managements commitment to build a pipeline of highly qualified UAE Nationals supported by an annual recruitment of RUWWAD graduates.

Outlook for 2018

The new year has seen the introduction of new regulatory and tax regimes including higher minimum capital ratio requirements, the adoption of IFRS 9 and the introduction of Value Added Tax. IFRS 9 together with increased minimum capital ratios will require enhanced focus on managing the Bank's balance sheet to maximize return on capital.

The UAE economy is geared to grow at a moderate but steady pace in 2018 given government investment in infrastructure projects, growth in foreign trade and firming oil prices.
The Bank's renewed strategy is aimed at accelerating the growth and sophistication of its franchise and to position the Bank to take advantage of future opportunities through our refreshed branch network and digital propositions.

In 2017 the Bank has strengthened its overall operational risk and corporate governance framework with notable improvements in credit infrastructure, efficiency of operations and productivity. The Bank has continued its focus on enhancing the customer experience with increased fee income reflecting the improved cross sell of products across our customer base.

Board of Directors

In 2017, we bid farewell to HE Hamad Abdulla Al Shamsi . We thank him for his dedication and service and wish him every success. We welcome a new member to our Board namely HE Hareb Masood Aldarmaki. We look forward to benefiting from his valuable guidance and support over the coming years. I thank my fellow Directors for their outstanding contribution in 2017 as we embark upon an ambitious transformation journey for Al Hilal Bank.

Recognition

On behalf of our shareholder and the Board of Directors, I wish to express gratitude to the President His Highness Sheikh Khalifa bin Zayed Al Nahyan and His Highness the Crown Prince of Abu Dhabi, Sheikh Mohammed bin Zayed Al Nahyan, for their leadership and inspiring vision. My sincere thanks go to the Abu Dhabi Investment Council and the Central Bank of the UAE for their continued guidance and support.
Finally, I would like to recognize our staff for their efforts, commitment and professional standards in 2017 and to thank our customers for their loyalty and continued trust in Al Hilal Bank.

Mohamed Abdullah Al Rumaithi
Chairman of the Board of Directors

Fatwa and Shariah Supervisory Board Report – Al Hilal Bank Group
For the Financial Year Ended on 31 December 2017

بسم الله الرحمن الرحيم

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

To: Abu Dhabi Investment Council

السلام عليكم ورحمة الله تعالى وبركاته،

In line with Article No. 44 of the Bank's Articles of Association, the Fatwa and Shariah Supervisory Board (FSSB) 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, having adopted the Shariah Standards of Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) Bahrain, as a general basis.

The FSSB 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 FSSB is confined only to express an independent opinion based either on its direct supervision of the Bank's activities or through the Shariah Supervision Department, and to report our findings thereof to you, in light of the details shown by the minutes and reports of our meetings and 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 which the Bank has concluded with third parties.

With the help of the Shariah Supervision Department, we have planned and performed the Shariah audit of the transactions executed during the year and obtained all the information and explanations which we deem necessary to give us reasonable assurance 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's 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 FSSB held a total number of six meetings during the year, answered the queries raised to it and approved some new products proposed by the Management. The former Executive Member of the Board, Professor Dr. Mohammad Abdulrahim Sultan Al Olama answered the queries received through telephone calls. In addition, the former Executive Member of the Board, Sheikh Dr. Nedham Yaqoobi has reviewed those corporate transactions presented to him by way of emails, including a number of syndications in which the Bank has participated with other banks. He also answered queries on issues raised to him via telephone calls. In addition, the Board has answered all the queries presented to it via emails or telephone calls

Accordingly, the FSSB is of the opinion that:

1. 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 2017as 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.
2. 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.
3. 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.
4. Owing 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 Board 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 out of their adherence to the third pillar of Islam.

The FSSB 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, 13th Jumada Al Aakhirah, 1439 AH, corresponding to 1st Mar 2018.

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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 2017, 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 2017 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 (ISA). 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.

Provision for impairment of receivables from Islamic financing activities and Ijara
Accounting for the provision of impairment of receivables from Islamic financing activities and Ijara is an area that requires management of the Group to make complex and significant judgments. Such areas of judgment include the identification of which exposures are considered to be impaired, assessment of the recoverable amount of the receivables from Islamic financing activities and Ijara as well as the size of the impairment loss to be recorded. We have therefore identified provisions for impairment of receivables from Islamic financing activities and Ijara to be a key audit matter. At 31 December 2017, gross receivables from Islamic financing activities and Ijara amounted to AED 33,316,793 thousand against which provisions for impairment amounting to AED 2,083,643 thousand were recorded (see Note 11 and 12).

Provision for impairment of receivables from Islamic financing activities and Ijara continued
As set out in the accounting policies, an assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. In addition, a provision is made to cover collective impairment against portfolios of receivables from Islamic financing and Ijara which have not been separately identified as impaired. Collective impairment provisions are held against receivables from Islamic financing activities and Ijara across all customer segments and are estimated on the basis of historical loss experience for assets with similar credit risk characteristics.

We assessed and tested the design and operating effectiveness of key controls over the Group's credit management and monitoring procedures. In addition, we performed substantive audit procedures covering the identification by the Bank of impaired receivables from Islamic financing activities and Ijara and the calculation of the impairment provisions. Such procedures included reviewing the minutes of key meetings held that form part of the approval for provisions of impairment of receivables from Islamic financing and Ijara, past due reports as well as impairment assessments prepared by management of the Bank. In addition, for a sample of individual receivables from Islamic financing activities and Ijara, we performed a review of these exposures and evaluated management's assessment of the recoverable amount.

For the collective impairment provisions, we obtained an understanding of the methodology used by the Group to determine the collective impairment provisions and assessed the underlying assumptions and the sufficiency and accruacy of the data used by management.

Other information included in the Group's 2017 Annual Report
Other information consists of the information included in the Annual Report and Chairman's report, other than the consolidated financial statements and our auditor's report thereon. We obtained the Chairman's Report prior to the date of our audit report, and 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.

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.
- 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.

Building a better working world

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF AL HILAL BANK PJSC continued

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

Report on Other Legal and Regulatory Requirements

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

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) the consolidated financial information included in the Chairman's report is consistent with the books of account and records of the Group;

v) 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 2017;

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

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

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

11 March 2018
Abu Dhabi

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	*2017 AED'000*	*2016 AED'000*
Assets			
Cash and balances with banks	9	**7,048,371**	4,368,463
Wakala deposits with banks and other financial institutions	10	**244,794**	92,559
Receivables from Islamic financing activities	11	**21,918,259**	23,669,678
Ijara	12	**9,314,891**	8,593,095
Investment securities	13	**3,632,717**	4,061,624
Property and equipment	14	**715,949**	763,995
Other assets	15	**911,852**	1,181,423
Assets held for sale	32	**1,001,100**	695,877
Total assets		**44,787,933**	43,426,714
Liabilities			
Customers' accounts	16	**33,640,149**	32,190,641
Wakala deposits from banks		**1,113,215**	826,135
Medium term financing	17	**3,029,813**	3,305,362
Other liabilities	18	**1,144,825**	1,611,570
Liabilities directly related to assets held for sale	32	**337,332**	925
Total liabilities		**39,265,334**	37,934,633
Equity			
Share capital	19	**3,090,000**	3,090,000
Tier 1 Sukuk	20	**1,836,250**	1,836,250
Statutory reserve	19	**155,330**	135,558
Other reserves	21	**(181,039)**	(170,159)
Retained earnings		**622,058**	600,432
Total equity		**5,522,599**	5,492,081
Total liabilities and equity		**44,787,933**	43,426,714

Mohamed Abdullah Al Rumaithi
Chairman

Alexandre Coelho
Chief Executive Officer

Craig Barrington Bell
Chief Financial Officer

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

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2017

	Notes	2017 AED'000	2016 AED'000
Profit income			
Income from Islamic financing activities, net	22	**1,221,810**	1,176,929
Income from Ijara, net	23	**410,020**	353,541
Investment income	24	**145,284**	158,415
Income from Wakala investments		**61,288**	49,230
Total profit income		**1,838,402**	1,738,115
Depositors' and sukuk holders' share of profits	28	**(618,515)**	(559,232)
Net profit income		**1,219,887**	1,178,883
Commission, fees, foreign exchange and other income, net	25	**175,828**	144,453
Net revenues		**1,395,715**	1,323,336
Operating expenses	26	**(728,150)**	(745,034)
Depreciation	14	**(70,649)**	(72,398)
Net profit before impairment charges		**596,916**	505,904
Impairment charges, net	27	**(399,262)**	(378,602)
Net profit from continuing operations		**197,654**	127,302
Discontinued operations			
Net loss from discontinued operations	32	**(56,973)**	(2,722)
Net profit		**140,681**	124,580

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017

	Notes	***2017*** ***AED'000***	*2016* *AED'000*
Net profit		**140,681**	124,580
Other comprehensive (loss) income			
Items that will not be reclassified subsequently to the consolidated statement of income			
Net (loss) gain on investment in securities designated at fair value through other comprehensive income		**(5,355)**	12,082
Directors' remuneration	34	**(3,960)**	(4,796)
		(9,315)	7,286
Items that may be reclassified subsequently to the consolidated statement of income			
Exchange difference on translation of foreign operations	21	**294**	3,295
Other comprehensive (loss) income for the year		**(9,021)**	10,581
Total comprehensive income for the year		**131,660**	135,161

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2017

	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 CHANGES IN EQUITY continued
Year ended 31 December 2017

	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 2016	3,090,000	122,822	(179,347)	(4,766)	592,974	1,836,250	5,457,933
Total comprehensive income for the year							
Profit for the year	-	-	-	-	124,580	-	124,580
Other comprehensive income (loss)							
Net gain on investment securities designated at fair value through other comprehensive income	-	-	-	10,659	1,423	-	12,082
Exchange difference on translation of foreign operations *(note 21)*	-	-	3,295	-	-	-	3,295
Directors' remuneration *(note 34)*	-	-	-	-	(4,796)	-	(4,796)
Total other comprehensive income (loss) for the year	-	-	3,295	10,659	(3,373)	-	10,581
Total comprehensive income for the year	-	-	3,295	10,659	121,207	-	135,161
Transaction with owner of the Bank							
Contributions and distributions							
Tier 1 Sukuk issuance cost	-	-	-	-	(19)	-	(19)
Tier 1 Sukuk dividends	-	-	-	-	(100,994)	-	(100,994)
Transfer to statutory reserve	-	12,736	-	-	(12,736)	-	-
Total contributions and distributions	-	12,736	-	-	(113,749)	-	(101,013)
Balance at 31 December 2016	3,090,000	135,558	(176,052)	5,893	600,432	1,836,250	5,492,081

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

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	Note	***2017 AED'000***	*2016 AED'000*
OPERATING ACTIVITIES			
Profit for the year		**140,681**	124,580
Adjustment for:			
Depreciation		**71,124**	72,693
Impairment charges, net		**399,262**	378,602
Unwinding on renegotiated financings		**(3,958)**	(4,855)
Realised loss (gain) on sale of investment securities		**379**	(70)
Unrealised revaluation (gain) loss on investment		**(704)**	325
Operating profit before changes in operating assets and liabilities		**606,784**	571,275
Changes in:			
Wakala deposits with banks		**(1,898,099)**	306,092
Receivables from Islamic financing activities		**1,400,893**	(567,707)
Ijara		**(733,848)**	(1,720,568)
Other assets		**29,386**	(56,926)
Customers' accounts		**1,449,508**	39,010
Wakala deposits from banks		**(25,391)**	(194,569)
Other liabilities		**(135,743)**	33,427
Net cash flows from (used in) operating activities		**693,490**	(1,589,966)
INVESTING ACTIVITIES			
Property and equipment, net		**(30,748)**	(22,123)
Acquisition of investment securities		**(220,136)**	(245,295)
Proceeds from sale/ redemption of investment securities		**627,499**	587,135
Net cash flows from investing activities		**376,615**	319,717
FINANCING ACTIVITIES			
Tier 1 Sukuk issuance cost		**(148)**	(19)
Tier 1 Sukuk dividends		**(100,994)**	(100,994)
(Repayment) issuance of medium term financing	17	**(275,549)**	826,396
Directors' remuneration	34	**(3,960)**	(4,796)
Net cash flows (used in) from financing activities		**(380,651)**	720,587
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents, beginning of the year		**2,047,937**	2,597,599
CASH AND CASH EQUIVALENTS AT END OF YEAR	29	**2,737,391**	2,047,937

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 2017 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.

The consolidated financial statements were authorized and approved for issue by the Board of Directors on 11 March 2018.

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.

In preparing these consolidated financial statements, the significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the consolidated financial statements of the Group as at and for the year ended 31 December 2016. 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.

e) 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 2017:

IAS 7: Statement of cash flows (Amendment) requires entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

IAS 12: Income Taxes (Amendment) was issued In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of Sukuk measured at fair value for accounting, but measured at cost for tax purposes. The amendment does not impact the consolidated financial statements of the Group.

Annual Improvements 2014-2016 Cycle
These improvements are effective for annual periods beginning on or after 1 January 2017. The improvements did not impact the consolidated financial statements of the Group. They include:

1 - IFRS 1 First-time Adoption of IFRS
2 - IFRS 12 Disclosure of Interests in Other Entities
3 - IAS 28 Investments in Associates and Joint Ventures

2 BASIS OF PREPARATION continued

f) 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 15: Revenue from Contracts with Customers was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018.The Group plans to adopt the standard on the required effective date and will not restate comparative information. The Group has assessed that the initial application of IFRS 15 will not have a significant impact on its consolidated financial statements.

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." The Group is in the process of assessing the impact of IFRS 16 on its consolidated financial statements.

IFRS 9: Financial instruments was issued on July 2014, which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 addresses all aspects of financial instruments including classification and measurement, impairment and hedge accounting.

(a) Classification and measurement

The standard requires the Group to consider two criteria when determining the measurement basis for financing instruments (e.g. financings, sukuk securities) held as financial assets:

i) its business model for managing those financial assets; and
ii) cash flow characteristics of the assets.

Based on these criteria, financing instruments are measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. Equity instruments are measured at fair value through profit or loss. However, the Group may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through other comprehensive income, with no subsequent recycling to profit and loss, while recognizing dividend income in profit and loss. In addition, the Group may, at initial recognition, irrevocably elect to designate a financial asset as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. This designation is also available to existing financial assets. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

2 BASIS OF PREPARATION continued

f) Standards issued but not yet effective continued

IFRS 9: Financial instruments continued

(b) Impairment

The standard introduces a new single model for the measurement of impairment losses on all financial assets including receivables from Islamic Financing, Ijara and sukuk securities measured at amortized cost or at fair value through other comprehensive income. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39. 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.

Stage 1
12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months.

Stage 2
Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3
Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

Key Considerations
Some of the 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:

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the 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 assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

(1) The Group has established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition.

(2) Additional qualitative reviews will be performed to assess the staging results and 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.

2 BASIS OF PREPARATION continued

f) Standards issued but not yet effective continued

IFRS 9: Financial instruments continued

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider 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 will require significant judgment.

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) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios. Our base case scenario will be based on macroeconomic forecasts published by Oxford Economics. Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant. Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default
The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be 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 it is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life 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.

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

(c) Hedging

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9.

2 BASIS OF PREPARATION continued

f) Standards issued but not yet effective continued

IFRS 9: Financial instruments continued

(d) Transition impact

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 is not expected to 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 will continue to qualify and be effective under the IFRS 9 hedge accounting provisions and will not have any transition impact on the Group financial statements.

With regards to the impairment requirements of IFRS 9, the Group estimates the transition impact will reduce total equity in the range of 6% to 8%. The estimated impact relates primarily to the implementation of the ECL requirements. The assessment made by the Group is preliminary and as part of the implementation of the new standard the Group will continue to refine its model assumptions, accounting policies, governance framework and estimation techniques employed leading up to 31 March 2018 reporting.

(e) Financial instruments: disclosures (IFRS 7)

The Group will be amending the disclosures for 2018 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.

3 SIGNIFICANT ACCOUNTING POLICIES

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

a) Hedge accounting

In order to manage profit rate risks, the Group enters into Shariah compliant arrangements including profit rate swaps.

Hedge documentation
At the inception of the hedge, formal documentation of the hedge relationship must be established. The hedge documentation prepared at the inception of the hedge must include a description of the following:

- The Group's risk management objective and strategy for undertaking the hedge;
- The nature of risk being hedged;
- Clear identification of the hedged item and the hedging instrument; and
- How the Group will assess the effectiveness of the hedging relationship on an on-going basis.

Hedge effectiveness testing
The hedge is regarded as highly effective if the following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value of the hedging instruments with corresponding changes in the hedged risk and should be reliably measurable; and
- The actual results of the hedge are within a range of 80 to 125 percent.

These hedging relationships are discussed below:

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

a) Hedge accounting continued

Discontinuance of hedge accounting
The hedge accounting is discontinued when a hedging instrument expires or is sold, 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.

b) 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES continued

b) Islamic financial receivables continued

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.

c) 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.

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.

d) 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.

3 SIGNIFICANT ACCOUNTING POLICIES continued

d) Foreign currency continued

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.

e) 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES continued

f) 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.

g) 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.

h) 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.

i) 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.

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.

j) 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.

3 SIGNIFICANT ACCOUNTING POLICIES continued

k) 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.

l) 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).

m) 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.

n) Financial assets

i) Recognition and initial measurement

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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. On initial recognition, the Group classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

ii) Classification

The Group classifies its financial assets in the following categories: those to be measured at amortised cost, and those to be measured subsequently at fair value.

a) Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost, using effective profit rate method and net of any impairment loss, if:

- 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 financial asset give rise, on specified dates, to cash flows that are solely payments of principle and profit.

The Group's policy on impairment of financial assets measured at amortised cost is the same as that applied in its consolidated financial statements as at and for the year ended 31 December 2016 for Islamic financing receivables and Sukuk investments.

The Group makes an assessment of a business model at portfolio level as this reflects the best way the business is managed and information is provided to management.

3 SIGNIFICANT ACCOUNTING POLICIES continued

n) Financial assets continued

ii) Classification continued

a) Financial assets measured at amortised cost continued

In making an assessment of whether an asset is held within a business model whose objective 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 cash flow;
- the degree of frequency of any expected asset sales;
- the reason of any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

b) Financial assets measured at fair value

These assets are measured at fair value and changes therein, including any profit or dividend income, are recognised in profit or loss.

However, for investment in equity instruments not held for trading, the Group may elect at initial recognition to present gains and losses in other comprehensive income and such election is irrevocable. This designation is made on an instrument by instrument basis. For such investments measured at fair value through other comprehensive income, gains and losses are never reclassified to profit or loss, and no impairment is recognised in profit or loss. The gain or loss on disposal of the asset is reclassified to retained earnings. Dividends earned from such investments are recognised in profit or loss, unless dividend clearly represents repayment of part of the cost of the investment.

c) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

Transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

d) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3 SIGNIFICANT ACCOUNTING POLICIES continued

n) Financial assets continued

ii) Classification continued

e) Amortised cost measurement
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortisation using the effective profit rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

iii) 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) Impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the issuer, default or delinquency by an issuer, restructuring of Islamic financing receivables by the Group on terms that the Group would not otherwise consider, indications that an issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and collective level. All individually significant financial assets measured at amortised cost are assessed for specific impairment. All individually financial assets at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

3 SIGNIFICANT ACCOUNTING POLICIES continued

p) Financial liabilities

Financial liabilities, including customers' accounts, medium term financing and Wakala deposits, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective profit method, with profit expense recognised on an effective yield basis.

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

De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

q) 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.

3 SIGNIFICANT ACCOUNTING POLICIES continued

q) Revenue recognition continued

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.

r) 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.

s) 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.

t) 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.

u) 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

v) 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.

w) 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.

x) 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.

y) 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.

z) 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.

3 SIGNIFICANT ACCOUNTING POLICIES continued

z) Takaful contracts *continued*

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.

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

z) 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.

aa) 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.

ab) 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

ac) 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 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 reputation 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. A small business rating model has been deployed to assist in the credit decision process.

Outcome of all the risk rating models are being integrated in the Group's internal credit decision making process including but not limited to exposure threshold setting, approval delegation matrix, risk appetite, portfolio monitoring, Risk Adjusted Return on Capital .

The Group has an independent Risk Analytics & Risk Architecture unit 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.

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

4 FINANCIAL RISK MANAGEMENT continued

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

At 31 December 2017 and 31 December 2016, the Group's maximum exposure to credit risk before collateral held or other credit enhancements was as follows:

	Notes	***2017 AED'000***	*2016 AED'000*
Balances with banks	9	**321,941**	541,454
Wakala deposits with banks and other financial institutions	10	**244,794**	92,559
Receivables from Islamic financing activities	11	**23,835,160**	25,976,382
Ijara	12	**9,481,633**	8,752,226
Investment securities	13	**3,220,678**	3,513,559
Other assets	15	**468,416**	785,413
		37,572,622	39,661,593
Commitments and contingencies	30	**13,533,833**	16,357,720

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

At 31 December 2017 and 31 December 2016, 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 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**
31 December 2016				
Assets				
Balances with banks *(note 9)*	3,530,711	16,167	541,454	4,088,332
Wakala deposits with banks and other financial institutions	-	92,559	-	92,559
Receivables from Islamic financing activities	22,127,802	283,877	1,257,999	23,669,678
Ijara	8,529,147	11,280	52,668	8,593,095
Investment securities	3,914,041	6,593	140,990	4,061,624
Other assets *(note 15)*	785,413	-	-	785,413
Total	38,887,114	410,476	1,993,111	41,290,701
Commitments and contingencies *(note 30)*	15,352,892	211,194	793,634	16,357,720

4 FINANCIAL RISK MANAGEMENT continued

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

At 31 December 2017 and 31 December 2016, 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 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**

	Government AED'000	*Public AED'000*	*Corporate / private AED'000*	*Consumers AED'000*	*Total AED'000*
31 December 2016					
Balances with banks *(note 9)*	3,530,711	-	557,621	-	4,088,332
Wakala deposits with banks and other financial institutions	-	-	92,559	-	92,559
Receivables from Islamic financing activities	384,899	1,172,955	11,425,212	10,686,612	23,669,678
Ijara	-	1,775,502	4,280,533	2,537,060	8,593,095
Investment securities	1,337,006	364,645	2,359,973	-	4,061,624
Other assets *(note 15)*	-	-	723,719	61,694	785,413
Total	5,252,616	3,313,102	19,439,617	13,285,366	41,290,701
Commitments and contingencies *(note 30)*	-	3,772,076	11,958,354	627,290	16,357,720

Impairment and provisioning policies

Impaired receivables from Islamic financing activities are financial assets carried at amortised cost for which the Group determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the related financial assets. The Group's impairment & 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, as follows:

Rating	*Grade category*	*Rating description*
1	Investment- Grade	Exceptional
2+		Excellent
2		
2-		
3+		Superior
3		
3-		
4+		Good
4		
4-		
5+	Non-Investment- Grade	Satisfactory
5		
5-		
6+		Adequate
6		
6-		
7+		Very High Risk
7		
7-		
8	Classified	Substandard
9		Doubtful
10		Loss

Past due but not impaired financial assets
Past due but not impaired financial assets are those for which contractual profit or principal payments are past due but the Group believes that impairment of such financial assets is not appropriate on the basis of the level of security, collateral available and / or the stage of collection of amounts owed to the Group *(Note 11 and 12)*.

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. Once the facility is renegotiated it remains in this category for a minimum of six months of satisfactory performance.

As at 31 December 2017, the Group's renegotiated facilities amounted to AED 2,204,134 thousand (2016: AED 175,965 thousand).

4 FINANCIAL RISK MANAGEMENT continued

iv) Credit risk and concentrations of risk continued

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.

Allowances for impairment
The Group establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its financing portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective financing loss allowance for losses that have been incurred but not identified.

The table below sets out a reconciliation of changes in the carrying amount of impaired customers' exposures.

	2017 *AED'000*	*2016* *AED'000*
1 January	**2,918,370**	2,897,258
Classified as impaired during the year	**914,764**	464,327
De-classified or settled during the year	**(233,112)**	(438,460)
Write offs	**(696,401)**	(4,755)
31 December	**2,903,621**	2,918,370

The impaired customers' exposures above include non-funded facilities amounting to AED 11,763 thousand as at 31 December 2017 (2016: AED 17,924 thousand).

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.

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.

4 FINANCIAL RISK MANAGEMENT continued

iv) *Credit risk and concentrations of risk* continued

Collateral continued
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 2017 or 31 December 2016.

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

	2017 AED'000	*2016 AED'000*
Against customer financing not impaired		
Property	**7,555,622**	7,547,076
Securities	**539,889**	308,308
Cash margin and lien over deposit	**279,264**	319,009
Others	**2,541,864**	3,034,617
	10,916,639	11,209,010
Against individually impaired		
Property	**215,834**	526,832
Securities	**222,096**	177,980
Cash margin and lien over deposit	**-**	-
Others	**177,039**	174,600
	614,969	879,412
Total	**11,531,608**	12,088,422

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

	2017 AED'000	*2016 AED'000*
FTV ratio		
Less than 50%	**992,205**	912,704
51-70%	**1,222,230**	949,021
71-90%	**971,691**	629,147
91-100%	**94,095**	51,852
More than 100%	**214,998**	131,105
Total	**3,495,219**	2,673,829

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 is primarily comprised of 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	
	2017	*2016*
	AED’000	*AED’000*
± 10 % change in equity prices:		
Other comprehensive income	**41,204**	54,807

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.

Had the exchange rate between the various currencies and the AED increased or decreased by 5 %, with all other variables held constant, the impact on the results and equity of the Group would not have been material as the exposure primarily related to currencies that were pegged to the AED. The table below indicates the extent to which the Group was exposed to currency risk and its impact:

	% Change in rate	*Effect on net profit AED'000*	*Effect on equity AED'000*
31 December 2017			
Currency			
USD	5%	**1,945**	**1,945**
EUR	5%	**793**	**793**
GBP	5%	**2**	**2**
Others	5%	**93**	**93**
KZT	5%	-	**14,136**
31 December 2016			
Currency			
USD	5%	320	320
EUR	5%	11	11
GBP	5%	10	10
Others	5%	134	134
KZT	5%	-	3,844

In addition, as 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 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	
	2017 AED'000	*2016 AED'000*
Impact on Sukuk Portfolio for ± 200 basis points change		
Profit and loss	**1,296**	2,072

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	
	2017	*2016*
	AED'000	*AED'000*
+ 200 basis points change in profit rates	**20,229**	9,961

This exposure arises as a result of miss-matches 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 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

v) Market risk continued

A summary of the Group's profit rate re-pricing as at 31 December 2016 is as follows:

	Less than 3 months AED'000	*3-6 months AED'000*	*6-12 months AED'000*	*1-5 years AED'000*	*than 5 years AED'000*	*Non-sensitive AED'000*	*Total AED'000*
Assets							
Cash and balances with banks	992,860	-	501,207	-	-	2,874,396	4,368,463
Wakala deposits with banks and other financial institutions	92,559	-	-	-	-	-	92,559
Receivables from Islamic financing activities	9,939,095	2,140,325	1,459,145	7,947,855	4,477,440	12,522	25,976,382
Ijara	5,907,251	2,543,140	112,153	174,155	5,602	9,925	8,752,226
Investment securities	171,648	449,502	6,474	1,785,651	1,172,748	475,601	4,061,624
Other assets	-	-	-	-	-	785,413	785,413
Assets held for sale	-	-	-	-	-	10,877	10,877
Total assets	17,103,413	5,132,967	2,078,979	9,907,661	5,655,790	4,168,734	44,047,544
Liabilities							
Customers' accounts	18,363,394	4,732,406	2,741,988	550,035	22,028	5,780,790	32,190,641
Wakala deposits from banks	750,464	-	-	-	-	75,671	826,135
Medium term financing	1,469,112	-	-	1,836,250	-	-	3,305,362
Other liabilities	-	-	-	-	-	1,212,175	1,212,175
Liabilities directly related to assets held for sale	-	-	-	-	-	925	925
Total liabilities	20,582,970	4,732,406	2,741,988	2,386,285	22,028	7,069,561	37,535,238
Total off balance sheet	902,695	488,218	-	(370,983)	(1,019,930)	-	-
Net position	(2,576,862)	888,779	(663,009)	7,150,393	4,613,832	(2,900,827)	6,512,306

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 of 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 2017, the Bank's ASRR was 85.18% (2016: 89.75%).

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 2017, this ratio stood at 22.25% (2016: 17.82%).

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 2017, this ratio stood at 21.78% (2016: 13.16%).

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 funding.

	2017 *AED'000*	*2016* *AED'000*
Cash and balances with banks	**7,048,371**	4,368,463
Wakala deposits with banks and other financial institutions (net)	**(868,421)**	(733,576)
Investment securities	**3,632,717**	4,061,624
	9,812,667	7,696,511

As at the reporting date, the Group had no pledged or encumbered financial assets (2016: nil).

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

vii) Liquidity risk continued

A summary of the Group's maturity profile as at 31 December 2016 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	4,368,463	4,369,392	3,867,279	502,113	-	-	4,369,392
Wakala deposits with banks and other financial institutions	92,559	92,669	92,669	-	-	-	92,669
Receivables from Islamic financing activities	23,669,678	29,987,269	5,972,715	5,017,869	11,323,853	7,672,832	29,987,269
Ijara	8,593,095	10,999,782	235,478	1,148,329	5,623,610	3,992,365	10,999,782
Investment securities	4,061,624	4,638,898	651,831	560,434	2,206,653	1,219,980	4,638,898
Other assets	785,413	785,413	785,413	-	-	-	785,413
Assets held for sale	10,877	10,877	10,877	-	-	-	10,877
Total assets	41,581,709	50,884,300	11,616,262	7,228,745	19,154,116	12,885,177	50,884,300
Liabilities							
Customers' accounts	32,190,641	32,366,721	22,685,528	8,718,156	929,715	33,322	32,366,721
Wakala deposits from banks	826,135	826,518	826,518	-	-	-	826,518
Medium term financing	3,305,362	3,412,780	16,357	673,154	2,723,269	-	3,412,780
Other liabilities	1,212,175	1,212,175	1,212,175	-	-	-	1,212,175
Liabilities directly related to assets held for sale	925	925	925	-	-	-	925
Total liabilities	37,535,238	37,819,119	24,741,503	9,391,310	3,652,984	33,322	37,819,119
Net position	4,046,471	13,065,181	(13,125,241)	(2,162,565)	15,501,132	12,851,855	13,065,181
Contingent liabilities	6,267,195	6,267,195	5,349,099	702,754	215,342	-	6,267,195
Commitments	550,439	550,439	-	550,439	-	-	550,439

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(c) (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.

Impairment charge on financial assets
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
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 concentrations, 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. Flow rates and loss rates are regularly benchmarked against actual loss experience.

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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS continued

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.

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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS continued

Business model continued
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;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

In particular, the Group exercises judgment to determine the objective of the business model for portfolios which are held for liquidity purposes. The Group Treasury Department 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.

When a business model involves transfers of contractual rights to cash flows from financial assets to third parties and the transferred assets are not derecognised, the Group reviews the arrangements to determine their impact on assessing the objective of the business model. In making the assessment, the Group considers whether, under the arrangements, the Group will continue to receive cash flows from the assets, either directly from the issuer, or indirectly from the transferee, including whether it will repurchase the assets from the transferee.

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. Where the Group invests in contractually linked instruments (tranches), the Group exercises judgment to determine whether the exposure to credit risk in the acquired tranche is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments and so the acquired tranche may qualify for amortised cost measurement.

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.

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 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**
31 December 2016				
Assets for which fair value is disclosed				
Sukuk at amortised cost	3,470,878	-	-	3,470,878
Assets and liabilities measured at fair value				
Equity and other investments	597,040	-	-	597,040
Profit rate swaps (Positive value)	-	5,190	-	5,190
Profit rate swaps (Negative value)	-	(27,050)	-	(27,050)
Promise to sell foreign currencies, net	-	114	-	114
Investment property	-	-	68,000	68,000

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 2017 and 31 December 2016 are as follows:

	PBG AED'000	*WBG AED'000*	*TBG AED'000*	*Others AED'000*	*Total AED'000*
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**
31 December 2016					
Segment revenues, net	650,900	412,544	226,503	33,389	1,323,336
Operating expenses	(530,334)	(184,540)	(65,858)	(36,700)	(817,432)
Net operating income (loss)	120,566	228,004	160,645	(3,311)	505,904
Impairment charges, net	(260,646)	(98,017)	-	(19,939)	(378,602)
Loss from discontinued operations	-	-	-	(2,722)	(2,722)
Reportable segment (loss)/ profit	(140,080)	129,987	160,645	(25,972)	124,580
Reportable segment assets	13,495,899	18,638,236	8,247,615	3,044,964	43,426,714
Reportable segment liabilities	7,941,987	24,149,813	4,131,718	1,711,115	37,934,633

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 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**
31 December 2016					
Revenue, net	867,836	388,074	34,037	33,389	1,323,336
Inter segment revenues	(216,936)	24,470	192,466	-	-
Segment revenues, net	650,900	412,544	226,503	33,389	1,323,336

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 Group's lead regulator, the Central Bank of the UAE, sets and monitors capital requirements for the Group as a whole. The Group is required to comply with the provisions of the Central Bank of the UAE in respect of regulatory capital.

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) 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.

8 CAPITAL MANAGEMENT continued

b) Capital allocation continued

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 2017, 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.

In implementing current capital requirements, the Group calculates its capital adequacy ratio in accordance with capital adequacy guidelines established by the Central Bank of the UAE prescribing the ratio of total capital base to total risk-weighted assets.

The Group's capital adequacy ratio as per effective regulatory framework, Basel II, at the minimum level is analysed into two tiers as follows:

	Basel II 2017 AED'000	*Basel II 2016 AED'000*
Tier 1 capital		
Share capital	**3,090,000**	3,090,000
Statutory reserve	**155,330**	135,558
Retained earnings	**618,742**	596,789
Tier 1 Sukuk	**1,836,250**	1,836,250
Deduction for Tier 1 capital	**(26,803)**	(29,719)
Total Tier 1	**5,673,519**	5,628,878
Tier 2 capital		
Tier 2 capital Cumulative changes in fair value	**(181,039)**	(170,159)
Collective impairment provision for financing assets	**427,294**	447,343
Deduction for Tier 2 capital	**(1,396)**	(29,719)
Total Tier 2	**244,859**	247,465
Total capital base	**5,918,378**	5,876,343
Risk weighted assets		
Credit risk	**34,183,523**	35,787,425
Market risk	**38,512**	36,360
Operational risk	**2,831,896**	2,871,355
Total risk weighted assets	**37,053,931**	38,695,140
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**15.97%**	15.19%
Tier 1 capital expressed as a percentage of total risk weighted assets	**15.31%**	14.55%

8 CAPITAL MANAGEMENT continued

c) Basel III Capital Ratio

The Central Bank of UAE issued Basel III capital regulations, effective 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Tier 1 and Total Capital.

The minimum capital ratio requirements include a capital conservation buffer for 2017 of 1.25% (over and above the minimum CET1 ratio of 7%) increasing to 2.5% by 2019. The countercyclical capital buffer has not yet been introduced, but may be introduced by the Central Bank of UAE within a range of 0% to 2.5%.

Capital Ratios (consolidated group)	*2017*	*Minimum capital requirement 2017*	*Minimum capital requirement by 2019*
CET1 ratio	10.04%	8.25%	9.50%
Tier 1 ratio	14.94%	9.75%	11.00%
Total capital ratio	16.09%	11.75%	13.00%

9 CASH AND BALANCES WITH BANKS

	2017 AED'000	*2016 AED'000*
Cash in hand	**246,074**	280,131
Current account with Central Banks	**1,482,875**	601,747
Islamic certificates of deposit with Central Bank	**3,430,706**	1,494,067
Current account with Banks	**321,941**	541,454
Cash reserve deposits with Central Banks	**1,566,775**	1,451,064
	7,048,371	4,368,463

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

	2017	*2016*
	AED'000	*AED'000*
Wakala investments	**244,794**	92,559

All Wakala placements held by the Group as at 31 December 2017 and 2016 are in the UAE.

11 RECEIVABLES FROM ISLAMIC FINANCING ACTIVITIES

	2017	*2016*
	AED'000	*AED'000*
Corporate Commodity Murabaha	**13,855,359**	14,165,291
Retail Murabaha and Musawama	**9,709,460**	11,503,270
Islamic credit card receivable	**166,347**	169,276
Other Islamic financings	**103,994**	138,545
	23,835,160	25,976,382
Allowance for impairment *(note 27)*		
Specific allowance	**(1,496,675)**	(1,868,916)
Collective allowance	**(420,226)**	(437,788)
	21,918,259	23,669,678

Movement in allowance for impairment on receivables from Islamic financing activities, during the year:

	2017			*2016*		
	Specific allowance AED'000	*Collective allowance AED'000*	*Total AED'000*	*Specific allowance AED'000*	*Collective allowance AED'000*	*Total AED'000*
At the beginning of the year	**1,868,916**	**437,788**	**2,306,704**	1,520,863	426,761	1,947,624
Net charge (reversal) for the year	**368,088**	**(13,604)**	**354,484**	350,770	15,882	366,652
Unwinding on renegotiated financings	**-**	**(3,958)**	**(3,958)**	-	(4,855)	(4,855)
Written off during the year	**(740,329)**	**-**	**(740,329)**	(2,717)	-	(2,717)
At end of the year	**1,496,675**	**420,226**	**1,916,901**	1,868,916	437,788	2,306,704

11 RECEIVABLES FROM ISLAMIC FINANCING ACTIVITIES continued

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

	2017 *AED'000*	*2016* *AED'000*
Industry:		
Trade	**4,069,122**	4,736,878
Construction and Real Estate	**2,666,499**	2,570,514
Financial Institutions	**1,827,081**	1,824,993
Other Services	**2,363,662**	1,738,100
Manufacturing	**1,533,549**	1,610,259
Transport, Storage and Communication	**231,734**	580,646
Electricity, Gas and Water	**334,896**	387,843
Agriculture and Allied Activities	**416,463**	366,921
Mining and Quarrying	**148,052**	158,403
Financing to Individuals/HNIs/Others	**10,244,102**	12,001,825
	23,835,160	25,976,382
Geographic region:		
UAE	**22,603,315**	24,372,892
Kazakhstan	**392,529**	288,882
Others	**839,316**	1,314,608
	23,835,160	25,976,382

11 RECEIVABLES FROM ISLAMIC FINANCING ACTIVITIES continued

31 December 2017	**Corporate AED'000**	**Retail AED'000**	**Total AED'000**
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**

31 December 2016	Corporate AED'000	Retail AED'000	Total AED'000
Impaired and non-performing:			
Substandard	654,105	39,591	693,696
Doubtful	1,164,864	58,637	1,223,501
Legal and loss	235,819	583,879	819,698
Outstanding	2,054,788	682,107	2,736,895
Specific allowance for impairment	(1,245,880)	(623,036)	(1,868,916)
Carrying amount	808,908	59,071	867,979
Performing:			
Regular	9,631,918	10,745,735	20,377,653
Past due but not impaired			
1-29 days	1,041,660	59,864	1,101,524
30-59 days	225,873	131,194	357,067
60-89 days	454,354	53,646	508,000
Above 90 days	895,243	-	895,243
Outstanding	12,249,048	10,990,439	23,239,487
Collective allowance for impairment	(260,709)	(177,079)	(437,788)
Carrying amount	11,988,339	10,813,360	22,801,699
Total outstanding	14,303,836	11,672,546	25,976,382
Total allowance for impairment	(1,506,589)	(800,115)	(2,306,704)
Total carrying amount	12,797,247	10,872,431	23,669,678

12 IJARA

	2017 AED'000	2016 AED'000
Corporate Standard Ijara	**3,404,170**	3,522,900
Corporate Diminishing Musharaka	**2,582,476**	2,555,353
Retail Ijara Mawsufa Fi-aldhimma	**10,361**	43,648
Retail standard Ijara	**3,484,626**	2,630,325
	9,481,633	8,752,226
Allowance for impairment *(note 27)*		
Specific allowance	**(45,365)**	(44,289)
Collective allowance	**(121,377)**	(114,842)
	9,314,891	8,593,095

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.

Movement in allowance for impairment on Ijara during the year:

	2017 Specific allowance AED'000	2017 Collective allowance AED'000	2017 Total AED'000	2016 Specific allowance AED'000	2016 Collective allowance AED'000	2016 Total AED'000
At the beginning of the year	**44,289**	**114,842**	**159,131**	28,284	95,911	124,195
Net charge for the year	**5,516**	**6,535**	**12,051**	16,012	18,931	34,943
Written off during the year	**(4,440)**	**-**	**(4,440)**	(7)	-	(7)
At end of the year	**45,365**	**121,377**	**166,742**	44,289	114,842	159,131

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

	2017 AED'000	2016 AED'000
Industry:		
Construction and Real Estate	**3,286,586**	3,207,125
Other Services	**1,363,666**	1,081,988
Transport, Storage and Communication	**760,375**	998,190
Manufacturing	**437,833**	502,367
Electricity, Gas and Water	**-**	216,937
Trade	**37,788**	12,745
Mining and Quarrying	**1,898**	3,795
Ijara to individual/HNIs/others	**3,593,487**	2,729,079
	9,481,633	8,752,226
Geographic region:		
UAE	**9,397,156**	8,687,280
Kazakhstan	**54,272**	11,504
Others	**30,205**	53,442
	9,481,633	8,752,226

12 IJARA continued

31 December 2017	**Corporate AED'000**	**Retail AED'000**	**Total AED'000**
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

31 December 2016	Corporate AED'000	Retail AED'000	Total AED'000
Impaired and non-performing:			
Substandard	-	22,957	22,957
Doubtful	-	12,162	12,162
Legal and loss	19,986	108,446	128,432
Outstanding	19,986	143,565	163,551
Specific allowance for impairment	(3,080)	(41,209)	(44,289)
Carrying amount	16,906	102,356	119,262
Performing:			
Regular	5,174,836	2,469,588	7,644,424
Past due but not impaired			
1-29 days	840,583	8,426	849,009
30-59 days	-	33,649	33,649
60-89 days	42,848	18,745	61,593
Above 90 days	-	-	-
Outstanding	6,058,267	2,530,408	8,588,675
Collective allowance for impairment	(90,418)	(24,424)	(114,842)
Carrying amount	5,967,849	2,505,984	8,473,833
Total outstanding	6,078,253	2,673,973	8,752,226
Total allowance for impairment	(93,498)	(65,633)	(159,131)
Total carrying amount	5,984,755	2,608,340	8,593,095

13 INVESTMENT SECURITIES

	2017 AED'000	2016 AED'000
Financial assets at fair value:		
-Through profit and loss		
Sukuk securities	**37,727**	48,975
-Through other comprehensive income		
Quoted equity securities	**412,039**	548,065
Financial assets at amortised cost:		
Sukuk securities	**3,182,951**	3,464,584
Total investment securities	**3,632,717**	4,061,624

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

	2017 AED'000	2016 AED'000
A+ to A-	**501,035**	670,686
BBB+ to BBB-	**1,627,329**	997,960
BB+ to BB-	**27,544**	435,690
B+ to B-	**28,744**	36,724
CCC- to CCC+	**31,216**	-
Unrated	**1,416,849**	1,920,564
	3,632,717	4,061,624

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 570,670 thousand (2016: AED 840,086 thousand).

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

	2017 AED'000	2016 AED'000
Geographic region:		
UAE	**3,536,761**	3,914,041
Kazakhstan	**6,611**	6,593
Others	**89,345**	140,990
	3,632,717	4,061,624

14 PROPERTY AND EQUIPMENT

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	-	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**

As of 31 December 2017, the carrying value of ATMs recorded under furniture and fixtures held under finance leases amounted to AED 11,147 thousand (31 December 2016: AED 12,662 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 2016 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 2016	634,670	113,045	239,576	64,289	185,472	1,237,052
Additions	33	1,519	11,730	38,090	8,339	59,711
Transfers to investment properties (note 15)	(37,097)	-	-	-	-	(37,097)
Transfers	36,879	116,835	3,349	7,367	(164,430)	-
Disposals	-	(531)	-	(87)	(145)	(763)
Impairment (note 27)	-	-	-	(927)	(8,322)	(9,249)
At 31 December 2016	634,485	230,868	254,655	108,732	20,914	1,249,654
Accumulated depreciation:						
At 1 January 2016	85,721	87,377	182,252	57,888	-	413,238
Charge for the year	16,915	18,922	31,500	5,061	-	72,398
Charge relating to discontinued operations (notes 32)	-	-	-	295	-	295
Disposals	-	(186)	-	(86)	-	(272)
At 31 December 2016	102,636	106,113	213,752	63,158	-	485,659
Net book value:						
At 31 December 2016	531,849	124,755	40,903	45,574	20,914	763,995

15 OTHER ASSETS

	2017 *AED'000*	*2016* *AED'000*
Financial assets		
Acceptances	**357,531**	360,779
Takaful receivable	-	303,001
Income receivable	**35,112**	37,769
Trade finance receivable	**17,886**	27,857
Fair value of profit rate swaps	**1,770**	5,190
Others	**56,117**	50,817
	468,416	785,413
Non financial assets		
Murabaha inventory	**222,818**	141,097
Prepaid expenses	**56,482**	79,431
Investment in associates	**90,201**	89,650
Investment properties	**62,400**	68,000
Prepaid staff allowances	**11,535**	17,832
	443,436	396,010
	911,852	1,181,423

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 2017 AED'000	*GCC Equity Fund 2017 AED'000*	*Global Balanced Fund 2017 AED'000*
Total assets	145,852	34,278	56,452
Total liabilities	428	300	638
Net assets	145,424	33,978	55,814
Bank's share in net assets of associates	37,827	11,940	40,434
Total revenue	6,818	309	10,090
Profit (loss) for the year	5,303	(846)	8,933
Bank's share in profit (loss) of associates	1,379	(297)	6,471

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 2017 resulted in a loss of AED 5,600 thousand (2016: AED 17,847 thousand) which was recorded under other income (note 25).

16 CUSTOMERS' ACCOUNTS

	2017 *AED'000*	*2016* *AED'000*
By account:		
Wakala deposits	**21,341,007**	20,131,511
Current accounts	**5,558,002**	5,780,861
Savings accounts	**4,769,389**	4,229,536
Time deposits	**1,971,751**	2,048,733
	33,640,149	32,190,641
Industry:		
Government	**4,044,142**	5,329,710
Public	**14,187,653**	11,021,579
Corporate / private	**8,545,641**	9,822,531
Consumers	**6,862,713**	6,016,821
	33,640,149	32,190,641
Geographic region:		
UAE	**32,868,382**	31,221,029
Kazakhstan	**288,580**	226,643
Others	**483,187**	742,969
	33,640,149	32,190,641

17 MEDIUM TERM FINANCING

Medium Term Sukuk

On 8 October 2013, the Bank through a Shariah 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 programme. The Sukuk is listed on the Ireland Stock Exchange. 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 Shariah 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 Shariah 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.

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.

17 MEDIUM TERM FINANCING continued

Terms of arrangement continued

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 semiannual 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.

Reverse Murabaha

On 30 December 2015, the Bank entered into a Reverse Murabaha agreement with a syndicate of banks in order to raise medium term funding in the amount of AED 642,770 thousand (US$ 175,000 thousand) net of deferred profit. The Reverse Murabaha has a contractual maturity of two years. The Reverse Murabaha bears a profit at the rate of LIBOR plus a margin of 1.00% per annum in addition to transaction costs and certain costs incurred or suffered by a Murabaha party performing its obligations under the agreement.

On 29 June 2017, the Bank early settled its medium term funding in the amount of AED 642,770 thousand (US$ 175,000 thousand). The original maturity of the funding was on 28 December 2017.

18 OTHER LIABILITIES

	2017 *AED'000*	*2016* *AED'000*
Financial liabilities		
Acceptances	**357,531**	360,779
Accounts payable	**340,509**	405,876
Takaful liabilities	-	256,007
Fair value of profit rate swaps	**16,430**	27,050
Finance lease obligation (note 37)	**9,229**	11,217
Others	**169**	148,369
Charity payable	**3,232**	2,877
	727,100	1,212,175
Non financial liabilities		
Accrued expenses	**346,606**	325,181
Other facilities allowance	**9,510**	7,182
Advance administrative fees	**61,609**	67,032
	417,725	399,395
	1,144,825	1,611,570

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 4,719 thousand (2016: AED 8,834 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 2017 comprise of 3,090,000 thousand ordinary shares of AED 1 each (2016: 3,090,000 thousand ordinary shares of AED 1 each).

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 3,960 thousand (31 December 2016: AED 4,796 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 3,960 thousand (2016: AED 4,796 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 19,772 thousand (2016: AED 12,736 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	*Foreign currency translation reserve*	*Total*
1 January 2016	(4,766)	(179,347)	(184,113)
Net gain on investment securities designated at fair value through other comprehensive income	10,659	-	10,659
Exchange differences on translation of foreign operations	-	3,295	3,295
1 January 2017	**5,893**	**(176,052)**	**(170,159)**
Net gain on investment securities designated at fair value through other comprehensive income	**(11,174)**	-	**(11,174)**
Exchange differences on translation of foreign operations	-	**294**	**294**
31 December 2017	**(5,281)**	**(175,758)**	**(181,039)**

22 INCOME FROM ISLAMIC FINANCING ACTIVITIES, NET

	2017 AED'000	*2016 AED'000*
Income from Murabaha – corporate	**510,597**	429,621
Income from Musawama & Murabaha – retail	**706,774**	742,627
Other Islamic financing	**4,439**	4,681
	1,221,810	1,176,929

Profit suspended on impaired Islamic Financing Activities amounted to AED 270,242 thousand (2016: AED 280,661 thousand).

23 INCOME FROM IJARA, NET

	2017 AED'000	*2016 AED'000*
Income from Ijara – corporate	**155,378**	157,042
Income from Musharaka – corporate	**111,404**	81,069
Income from Ijara – retail	**143,238**	115,430
	410,020	353,541

Profit suspended on Ijara amounted to AED 59,334 thousand (2016: AED 40,339 thousand).

24 INVESTMENT INCOME

	2017 *AED'000*	*2016* *AED'000*
Income from Sukuk	**110,788**	114,946
Dividend income	**31,372**	34,834
Realised (loss) gain on sale of investment securities	**(379)**	70
Unrealised gain (loss) on investment securities	**704**	(325)
Gain from other investment assets	**2,799**	8,890
	145,284	158,415

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

	2017 *AED'000*	*2016* *AED'000*
Fees and commission, net	**156,081**	141,314
Foreign exchange , net	**20,982**	18,312
Other (expense) income, net	**(1,235)**	(15,173)
	175,828	144,453

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

26 OPERATING EXPENSES

	2017 *AED'000*	*2016* *AED'000*
Personnel and related expenses	**513,140**	510,898
Rent expenses	**56,907**	65,042
Legal and professional fees	**25,297**	34,534
Software maintenance	**19,383**	17,544
Communication expenses	**14,276**	14,082
Premises expenses	**46,670**	44,093
Marketing and advertising expenses	**17,606**	19,926
Hardware maintenance	**5,770**	8,869
Printing and office supplies	**9,287**	12,287
Other expenses	**19,814**	17,759
	728,150	745,034

27 IMPAIRMENT CHARGES, NET

	Ijara		*Receivables from Islamic financing activities*		*Others*		*Total*	
	2017	*2016*	***2017***	*2016*	***2017***	*2016*	***2017***	*2016*
	AED'000	*AED'000*	***AED'000***	*AED'000*	***AED'000***	*AED'000*	***AED'000***	*AED'000*
At the beginning of the year	**159,131**	124,195	**2,306,704**	1,947,624	**17,074**	40,067	**2,482,909**	2,111,886
Net charges (reversals) for the year	**12,051**	34,943	**354,484**	366,652	**5,703**	(32,886)	**372,238**	368,709
Impairment of property and equipment (note 14)	-	-	-	-	**3,890**	9,249	**3,890**	9,249
Impairment charges on asset held for sale	-	-	-	-	**23,134**	644	**23,134**	644
Write offs, recoveries and others	**(4,440)**	(7)	**(740,329)**	(2,717)	**(3,374)**	-	**(748,143)**	(2,724)
Unwinding on renegotiated financings	-	-	**(3,958)**	(4,855)	-	-	**(3,958)**	(4,855)
At the end of the year	**166,742**	159,131	**1,916,901**	2,306,704	**46,427**	17,074	**2,130,070**	2,482,909

28 DEPOSITORS’ AND SUKUK HOLDERS’ SHARE OF PROFITS

	2017 AED’000	2016 AED’000
Wakala	**408,558**	366,843
Profit rate swap	**44,684**	67,784
Mudaraba	**63,889**	35,210
Medium term financing	**101,384**	89,395
	618,515	559,232

Profit rate swap expense is set off by profit rate swap revenue of AED 30,083 thousand (31 December 2016: AED 37,457 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).

During 2016, distributable gains generated by Wakala and Mudarabah pools were not sufficient to cover the profits paid to depositors therefore shareholders’ donation of AED 46,733 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:

	2017 AED’000	2016 AED’000
Cash and balances with banks	**3,567,524**	2,798,504
Wakala deposits with banks and other financial institutions	**200,027**	-
Wakala deposits from banks	**(1,063,038)**	(750,567)
	2,704,513	2,047,937
Calssified as part of assets directly related to discontinued operations	**32,878**	-
	2,737,391	2,047,937

30 COMMITMENTS AND CONTINGENCIES

	2017 AED'000	2016 AED'000
Letters of credit	**516,499**	614,377
Letters of guarantee	**4,706,933**	5,652,818
Irrevocable commitments to extend credit	**871,808**	550,439
Revocable commitments to extend credit	**7,438,593**	9,540,086
Capital commitments	**35,769**	95,405
Operating lease commitments	**164,896**	53,476

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 losses on Islamic derivatives covering the banking book are matched by unrealised valuation gains on hedged items amounting to AED 19,502 thousand (2016: AED 24,291 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 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**
31 December 2016							
Islamic derivatives held for trading							
Profit rate swaps	2,725	(3,794)	2,477,590	1,836,250	145,333	496,007	2,477,590
Promises to sell foreign currencies	387	(273)	340,091	340,091	-	-	340,091
	3,112	(4,067)	2,817,681	2,176,341	145,333	496,007	2,817,681
Islamic derivatives held for hedging purposes							
Profit rate swaps	-	(24,291)	1,390,913	-	-	1,390,913	1,390,913
	3,112	(28,358)	4,208,594	2,176,341	145,333	1,886,920	4,208,594

32 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

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

	2017 *AED'000*	*2016* *AED'000*
Assets directly related to discontinued operations (subsidiaries) (i)	**345,100**	10,877
Asset held for sale - Building (and the related land) (ii)	**656,000**	685,000
Assets held for sale	**1,001,100**	695,877
Liabilities directly related to discontinued operations (subsidiaries) (i)	**337,332**	925
Net assets held for sale	**663,768**	694,952

(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:

	2017 *AED'000*	2016 *AED'000*
Consolidated Statement of Financial Position		
Cash and balances with banks	**32,878**	-
Wakala deposits with banks		-
and other financial institutions	**35,000**	-
Investment securities	**16,514**	-
Property and equipment	**3,780**	-
Other assets	**256,928**	10,877
Assets directly related to discontinued operations	**345,100**	10,877
Other liabilities	**337,332**	925
Liabilities directly related to discontinued operations	**337,332**	925
Net assets directly related to discontinued oeprations	**7,768**	9,952

	2017 *AED'000*	2016 *AED'000*
Loss from discontinued operations:		
Investment income	**1,273**	1,574
Income from Wakala investments	**9,039**	8,388
Commission, fees, foreign exchange and other income, net	**(32,023)**	26,866
Operating expenses	**(34,787)**	(39,255)
Depreciation	**(475)**	(295)
Loss for the year from discontinued operations	**(56,973)**	(2,722)

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 balance date. The cash flows associated with the discontinued operation of Al Hilal Auto are expected to be with 12 months of balance date.

	2017	2016
	AED'000	*AED'000*
Cash flows from discontinued operations:		
Net cash outflows from investing activities	**53,644**	-
Net cash outflows used in financing activities	**(20,766)**	-
Net cash outflows	**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 23,000 thousand (2016: AED 644 thousand) was recognised as at 31 December 2017 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*	
		2017	*2016*
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	-	-

* Al Hilal Takaful PSC was classified as held for sale during the year. 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 or AHB Tier 1 Sukuk 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 2017 and 31 December 2016 comprise:

	2017 *AED'000*	*2016* *AED'000*
Short term employment benefits	**25,678**	14,327
Directors' remuneration	**3,960**	4,796
Post employment benefits	**1,405**	1,345

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 1.13% to 6.00% per annum (2016: 0.96% to 5.75%).

Profit distribution rates paid on customers' investment accounts placed by related parties during the year have ranged from 1.10% to 1.90 % per annum (2016: 1.40% to 2.45%).

Fees and commissions earned on transactions with related parties during the year have ranged from 0.40% to 3.00% per annum (2016: 0.4% to 3.0%).

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 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**
Balances: 31 December 2016					
Receivables from Islamic financing activities and Ijara	-	11,244	75,119	135,286	221,649
Other assets	-	-	2,373	-	2,373
Customers' accounts	-	50,158	113,679	-	163,837
Wakala deposits (included in customers' accounts)	2,352,089	9,132	15,417	3,055,125	5,431,763
Other liabilities	86,180	-	16,833	-	103,013
Undrawn facilities commitments	-	1,575	-	375,697	377,272
Guarantees	-	-	9,749	-	9,749

	Parent AED'000	*Directors and key management AED'000*	*Parent's subsidiaries AED'000*	*Others AED'000*	*Total AED'000*
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**
Transactions: 31 December 2016					
Financing income	-	878	1,416	2,949	5,243
Commission, fees and foreign exchange income, net	-	1,123	(35)	-	1,088
Income from Wakala investments	-	-	9,773	-	9,773
Investment income	-	-	2,000	-	2,000
Profit distribution	49,639	188	47,300	40,444	137,571

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

During the year no specific provisions were booked with respect to balances due from the related parties (31 December 2016: AED nil).

35 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

Name of entity	***Interest held by the Group 2017***	*Interest held by the Group 2016*
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 2017 was AED 2,755 thousand (2016: AED 3,266 thousand).

37 FINANCE LEASE

During the prior year, 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.

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

	AED'000	
	Minimum payments	*Present value of payments*
31 December 2016		
Less than one year	2,507	2,415
Greater than one year but not more than five years	10,028	8,802
Total minimum lease payments	12,535	11,217
Less: future finance charges	1,318	-
Present value of minimum lease payments	11,217	11,217

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 COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with the presentation adopted in the current year.