Invest bank P.S.C.

Consolidated financial statements

31 December 2018

Registered office

Al Zahra Street
P O Box 1885 - Sharjah
United Arab Emirates

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Invest Bank P.S.C.

Board of Directors' Report

Dear Shareholders,

It is my pleasure to welcome you to our annual general meeting, and present to you this Directors' Report and the audited consolidated financial statements for the year ended 31 December 2018, as set out in the accompanying consolidated financial statements.

Financial Performance

2018 proved to be a challenging year for Invest Bank. Years of weak governance and credit underwriting and monitoring practices, compounded by a subdued economic environment, led to a significant deterioration in asset quality.

The Bank booked AED 1,695 million in impairment provisions, resulting in a net loss of AED 1,472 million and the Bank's equity to drop to AED 747 million. The capital adequacy ratio fell to 6.2% and the Bank's total assets reduced to AED 14,026 million in 2018, from AED 16,949 million in 31 December 2017. Customer deposits stood at AED 12,635 million, 7% lower than the 2017 balance of AED 13,594 million. Net loans were AED 10,075 million, compared to AED 12,466 million in 2017, down by 19%.

The Bank posted operating income of AED 509 million compared to AED 795 million in 2017, a decrease of 36%, while the net operating profit before impairment loss reached AED 223 million, a decrease of 63% compared to the previous year. This was mainly on account of lower net interest income.

Net interest income decreased by 26% from 2017 to AED 394 million, as a consequence of the deterioration in the credit portfolio. Non-interest income reached AED 114 million, a 56% decline from 2017, impacted by restricted credit underwriting from lower capital adequacy and more stringent underwriting criteria.

In response to the critical situation, the Board took serious measures to enhance its corporate governance at the level of both the board and management, and to strengthen the areas around credit underwriting and monitoring. The Board hired a new Chief Executive Officer, Chief Risk Officer, Chief Operating Officer and several other senior management staff. After considering various alternatives to recapitalize the Bank and protect the interests of its shareholders and to prepare itself for its future business needs, the Board agreed to a proposed strategic investment from the Government of Sharjah, subsequently approved by you, our shareholders, at your previous meeting held on 10 April 2019.

Under the terms of the strategic investment, the Government of Sharjah has committed to invest up to AED 1,900 million in two-stages. Firstly, the Government of Sharjah has injected AED 1,115 million, in exchange for a 50.07% stake in the Bank. Secondly, the Government of Sharjah has underwritten, to an extent of AED 785 million, a future rights issue to raise additional capital, expected to occur before the end of 2019.

This strategic investment has set the stage for a mutually beneficial and long-term strategic partnership between Invest Bank and the Government of Sharjah. The top priority will be to keep improving the Bank's asset quality by reinforcing enhancements to risk processes and policies, strengthening underwriting standards, and implementing portfolio management best practice. Over the medium term, we aim to return the Bank to profitable growth through a strategy that improves operating margins and taps into commercially viable opportunities.

I am pleased to introduce to you our new board, which will compromise of the following members:

Chairman:	H.E. Sheikh Sultan Bin Ahmed Bin Sultan Al Qasimi
Vice Chairman:	Mr. Omran Abdulla Omran Taryam
Members:	H.E. Waleed Ibrahim Al Sayegh Mr. Ahmed Mohammed Hamad Al-Midfa Mr. Ummer Said Mohamed Ummer Mr. Fares Hmeid Treis Said Al Mazroui Mr. Robert Douglas Dowie

I look forward to working with the Board and the management team to set Invest Bank on a sustainable growth path to create long-term value for shareholders, clients and the wider UAE economy.

Personally and on behalf of the entire Board, I would like to express our sincere gratitude and appreciation to His Highness Sheikh Dr. Sultan bin Mohammed Al Qasimi, Member of the Supreme Council and Ruler of Sharjah, for his guidance and support, without which Invest Bank would not have been able to withstand the challenging circumstances it faced.

On your behalf, I would also like to thank the bank's management and staff for their hard work, dedication and commitment, and look forward to their continued contributions in this new and exciting chapter of Invest Bank.

On behalf of the Board

H.E. Sheikh Sultan Bin Ahmed Bin Sultan Al Qasimi
Chairman

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Independent auditor's report to the shareholders of Invest bank P.S.C.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Invest bank P.S.C. (the "Bank") and its subsidiary (together the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

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

Emphasis of matter

We draw attention to note 2 to the consolidated financial statements, which states that the Bank's equity has reduced to AED 0.7 billion at 31 December 2018, as a result of the substantial increase in its impairment provision. Consequently, the Group is in the process of recapitalizing itself through a strategic controlling investment commitment of AED 1.9 billion by the Government of Sharjah, of which AED 1.1 billion has been deposited with the Bank as at 31 December 2018 pending shareholders' and regulatory approvals for conversion into share capital. The conversion to equity has been completed subsequent to 31 December 2018. The Central Bank of the UAE has also announced that it will support the Bank with all the available liquidity facilities, which remain at Bank's disposal if and when needed. Our opinion is not modified in respect of this matter.

Independent auditor's report to the shareholders of Invest bank P.S.C. (continued)

Our audit approach

Overview

Key Audit Matter	• Measurement of expected credit losses under IFRS 9

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

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

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Measurement of expected credit losses under IFRS 9 IFRS 9 'Financial Instruments' became effective from 1 January 2018 and replaced most of the guidance in IAS 39 – 'Financial Instruments'. In particular, the incurred loss impairment model under IAS 39 has been replaced with the Expected Credit Losses model ("ECL"). The Group has previously adopted the first phase of the IFRS 9 with regards to classification and measurement of financial instruments. The Group adopted the final phase of IFRS 9 with respect to impairment of financial assets with effect from 1 January 2018. The adoption of the ECL model under IFRS 9 has resulted in a net decrease in equity by AED 300 million which has been recognized as an adjustment in equity at 1 January 2018. On the initial application of IFRS 9, management has evaluated and disclosed the information required by IFRS 7 and IFRS 9.	We performed the following audit procedures on the computation of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2018: ➢ We tested the completeness and accuracy of the data used in the calculation of ECL. ➢ For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria. ➢ We involved our internal specialists to assess the following areas: • Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9. • ECL modelling methodology and calculations used to compute the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for the Group's classes of financial instruments.

Independent auditor's report to the shareholders of Invest bank P.S.C. (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
Measurement of expected credit losses under IFRS 9 (continued) The Group applies ECL on all its financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments and financial guarantee contracts. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria. For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral. The Group's impairment policy under IFRS 9 is presented in Note 4.3.1 to the consolidated financial statements. Measurement of ECL is considered as a key audit matter as the Group applies significant judgements and makes a number of assumptions in the staging criteria applied to the financial instruments as well as in developing ECL models for calculating its impairment provisions.	• Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk. ➤ In addition, for the Stage 3 corporate credit portfolio, we independently assessed the appropriateness of provisioning assumptions for a number of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit files. ➤ We also assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9.

Independent auditor's report to the shareholders of Invest bank P.S.C. (continued)

Other information

The directors are responsible for the other information. The other information comprises Directors' report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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

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

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as 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, directors are 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 directors 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

Independent auditor's report to the shareholders of Invest bank P.S.C. (continued)

Report on other legal and regulatory requirements

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

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

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

iii) the Group has maintained proper books of account;

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

v) as disclosed in note 8 to the consolidated financial statements the Group has purchased shares during the year ended 31 December 2018;

vi) note 23 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

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

viii) note 28 to the financial statements discloses the social contributions made during the year ended 31 December 2018.

Further, as required by Article (114) of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers
13 May 2019

Douglas O' Mahony
Registered Auditor Number 834
Place: Dubai, United Arab Emirates

Invest bank P.S.C.
Consolidated statement of financial position
as at 31 December 2018

	Note	2018 AED '000	2017 AED '000
Assets			
Cash and deposits with central banks	6	**1,968,369**	2,261,183
Due from banks	7	**733,460**	398,604
Investment securities	8	**155,947**	544,939
Loans and advances to customers	9	**10,075,374**	12,465,634
Other assets	10	**1,092,918**	1,278,865
Total assets		**14,026,068**	**16,949,225**
Liabilities			
Due to banks	12	**199**	2,827
Deposits from customers	13	**12,635,484**	13,594,128
Other liabilities	14	**643,200**	812,363
Total liabilities		**13,278,883**	**14,409,318**
Equity			
Share capital	15	**1,588,125**	1,588,125
Legal reserve	15	**450,688**	450,688
Special reserve	15	**450,688**	450,688
Fair value reserve		**(117,015)**	(97,213)
(Accumulated losses) / Retained earnings		**(1,625,301)**	147,619
Total equity		**747,185**	**2,539,907**
Total liabilities and equity		**14,026,068**	**16,949,225**

The notes on pages 14 to 65 are an integral part of these consolidated financial statements.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 22 APR 2019 and signed on its behalf by:

Chief Executive Officer

Chairman

Invest bank P.S.C.
Consolidated statement of profit or loss
for the year ended 31 December 2018

	Note	2018 AED '000	2017 AED '000
Operating income			
Interest income	*16*	**740,015**	847,287
Interest expense	*16*	**(345,738)**	(312,993)
Net interest income		**394,277**	**534,294**
Net fees and commission income	*17*	**190,754**	208,270
Net income from foreign currencies		**14,631**	19,919
Revaluation gain/ (loss) and other income	*18*	**(91,132)**	32,532
Total operating income		**508,530**	**795,015**
Operating expenses			
General and administrative expenses	*19*	**(285,793)**	(200,271)
Total operating expenses		**(285,793)**	**(200,271)**
Profit before impairment loss		**222,737**	**594,744**
Net impairment loss	*20*	**(1,694,882)**	(872,489)
Loss for the year		**(1,472,145)**	**(277,745)**
Loss per share (UAE Dirhams)	*21*	**(0.927)**	(0.175)

The notes on pages 14 to 65 are an integral part of these consolidated financial statements.

Invest bank P.S.C.
Consolidated statement of other comprehensive income
for the year ended 31 December 2018

	2018 AED '000	2017 AED '000
Loss for the year	**(1,472,145)**	(277,745)
Other comprehensive loss:		
Items that will not be reclassified to profit or loss:		
Change in fair value of financial assets measured at fair value through other comprehensive income (FVTOCI)	**(20,378)**	(12,743)
Total items that will not be reclassified to profit or loss	**(20,378)**	**(12,743)**
Total other comprehensive loss	**(20,378)**	(12,743)
Total comprehensive loss for the year	**(1,492,523)**	**(290,488)**

The notes on pages 14 to 65 are an integral part of these consolidated financial statements.

Invest bank P.S.C.
Consolidated statement of changes in equity
for the year ended 31 December 2018

	Share capital AED '000	Legal reserve AED '000	Special reserve AED '000	Fair value reserve AED '000	(Accumulated losses) / retained earnings AED '000	Total AED '000
Balance at 1 January 2017	**1,588,125**	**450,688**	**450,688**	**(84,470)**	**556,484**	**2,961,515**
Total comprehensive income						
Profit for the year	-	-	-	-	(277,745)	(277,745)
Other comprehensive income						
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	(12,743)	-	(12,743)
Total other comprehensive loss	-	-	-	(12,743)	-	(12,743)
Total comprehensive income for the year	-	-	-	(12,743)	(277,745)	(290,488)
Directors' fees (*refer to note 23*)	-	-	-	-	(2,800)	(2,800)
Transaction with owners of the Bank						
Cash dividend paid (*refer to note 15*)	-	-	-	-	(128,320)	(128,320)
Balance at 31 December 2017	**1,588,125**	**450,688**	**450,688**	**(97,213)**	**147,619**	**2,539,907**
Balance at 1 January 2018	**1,588,125**	**450,688**	**450,688**	**(97,213)**	**147,619**	**2,539,907**
Changes on initial application of IFRS 9	-	-	-	-	**(300,199)**	**(300,199)**
Restated balance at 1 January 2018	**1,588,125**	**450,688**	**450,688**	**(97,213)**	**(152,580)**	**2,239,708**
Total comprehensive loss						
Loss for the year	-	-	-	-	(1,472,145)	(1,472,145)
Other comprehensive loss						
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	(20,378)	-	(20,378)
Realised loss on sale of financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	-	576	(576)	-
Total other comprehensive loss	-	-	-	(19,802)	(576)	-
Total comprehensive loss for the year	-	-	-	(19,802)	(1,472,721)	(1,492,523)
Balance at 31 December 2018	**1,588,125**	**450,688**	**450,688**	**(117,015)**	**(1,625,301)**	**747,185**

The notes on pages 14 to 65 are an integral part of these consolidated financial statements.

Invest bank P.S.C.
Consolidated statement of cash flows
for the year ended 31 December 2018

	Note	2018 AED '000	2017 AED '000
Cash flows from operating activities			
Loss for the year		**(1,472,145)**	(277,745)
Depreciation		**25,409**	11,781
Amortisation of premium on bonds		**-**	495
Net loss / (gain) on investment securities		**475**	(1,278)
Fair value loss on repossessed properties	*18*	**109,985**	9,000
Net impairment loss	*20*	**1,694,882**	872,489
		358,605	**614,742**
Changes in time deposits with Central bank maturing after three months		**-**	405,000
Changes in time deposits with banks maturing after three months		**-**	100,000
Change in statutory reserve requirement		**50,658**	(57,127)
Change in loans and advances to customers		**395,678**	(1,384,598)
Change in other assets		**61,170**	(123,203)
Change in deposits from customers		**(958,644)**	1,417,443
Change in other liabilities		**(169,163)**	154,258
Directors' fees	*23*	**-**	(2,800)
Net cash (used in) / generated from operating activities		**(261,695)**	**1,123,715**
Cash flows from investing activities			
Purchase of property and equipment		**(10,935)**	(14,754)
Purchase of investment securities		**(28,594)**	(4,576)
Proceeds from sale/redemption of investment securities		**396,718**	31,846
Net cash generated from investing activities		**357,189**	**12,516**
Cash flows from financing activity			
Cash dividend paid		**-**	(128,320)
Net cash used in financing activity		**-**	**(128,320)**
Net increase in cash and cash equivalents		**95,494**	1,007,911
Cash and cash equivalents at 1 January		**2,170,225**	1,162,314
Cash and cash equivalents at 31 December	*22*	**2,265,719**	2,170,225

The notes on pages 14 to 65 are an integral part of these consolidated financial statements.

1 Legal status and activities

Invest bank P.S.C. ("Invest bank" or "the Bank") is a public shareholding company with limited liability which was incorporated in 1975 by an Emiri Decree issued by His Highness Dr. Sheikh Sultan Bin Mohammed Al Qassimi, Ruler of Sharjah. The registered address of the Bank is at Al Zahra Street, P.O.Box 1885, Sharjah, United Arab Emirates ("UAE").

Invest bank is licensed by the Central Bank of the UAE (the "CB UAE") to carry out banking activities and is principally engaged in the business of corporate and retail banking through its network of branches located in the Emirate of Sharjah, Dubai, Abu Dhabi, Ras Al Khaimah and Fujairah. Invest Bank also carries out banking activities through it's branch ("the branch") in Beirut, Lebanon licensed by Banque Du Liban (the "CB Lebanon"). The Bank's shares are listed on the Abu Dhabi Securities Exchange ("ADX").

The Bank has a fully owned subsidiary, ALFA Financial Services FZE with limited liability status in the Sharjah Airport International Free Zone to provide support services to the Bank.

The consolidated financial statements as at and for the year ended 31 December 2018 comprise the Bank and its subsidiary (together referred to as "the Group").

2 Recapitalization

Background

Following a significant deterioration in the quality of the loans and advances portfolio of the Bank, its impairment provision has increased by AED 2.2 billion, to AED 3.7 billion at 31 December 2018 and, consequently, the Bank's equity has reduced to AED 0.7 billon at that date. These factors have resulted in the Bank's liquidity being adversely affected as well as the breach in its regulatory Capital Adequacy Ratio ("CAR"), which is at 6.2% at 31 December 2018, compared to the regulatory minimum of 12.4%. The UAE Central Bank, has also requested for further regulatory impairment provisions up to a maximum of AED 0.9 billion which is currently under review by the Bank.

Subsequent to the year end, the Government of Sharjah acquired a controlling interest in the Bank through a strategic investment, details of which are set out below. In addition, the UAE Central Bank has made a public press announcement on 16 December 2018, that it will support the Bank with all the available liquidity facilities, which remain at Bank's disposal if and when needed.

Recapitalisation plan

On 13 December 2018, the Government of Sharjah entered into an Investment Agreement with the Bank, whereby it agreed, to acquire a 50.1% controlling interest in the Bank through a "Strategic Investment", subject to shareholders' and regulatory approvals. The proposed investment commitment of AED 1.9 billion would be undertaken in two tranches, as follows: AED 1.1 billion through the issue of 1,592,857,143 shares of AED 1 each, issued to the Government of Sharjah at a discounted price of AED 0.7 per share and a further rights issue of AED 0.8 billion, also to be issued at a similar discounted price of AED 0.7 per share and to be fully underwritten by the Government of Sharjah. The Investment Agreement expired on 31 January 2019, and was replaced with the Implementation Agreement dated 28 March 2019 with similar terms and conditions to those of the Investment Agreement.

The first tranche of the AED 1.1 billion capital was placed as a deposit with the Bank by the Government of Sharjah on 27 December 2018, pending shareholders' and regulatory approvals for conversion into share capital. The Bank, at its General Meeting held on 10 April 2019 approved the Government of Sharjah's strategic controlling investment in the Bank subsequent to the receipt of the regulatory approvals. Accordingly, the AED 1.1 billon deposit has now been converted into fully paid up share capital of the Bank and the authorized share capital of the Bank was increased to AED 6.3 billion. Refer to note 27(f) for the recomputation of CAR at 13.84%, had this conversion taken place prior to 31 December 2018.

3 Basis of preparation

a) Statement of compliance

This consolidated financial statements have been prepared in accordance with IFRS and the applicable provisions of UAE Federal Law No. 2 of 2015. The Bank, in accordance with Article 302 of Federal Law No. 2 of 2015, should convene a General Assembly for the continuation of the Bank, within thirty days of the issue of these financial statements.

b) Basis of measurment

These consolidated financial statements have been prepared on the historical cost basis except for the measurement of certain investment securities at fair value.

c) Functional and presentation currency

This consolidated financial information has been presented in United Arab Emirates Dirhams (AED) rounded to the nearest thousand, which is the Group's functional and presentation currency.

d) Use of estimates and judgments

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

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

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial information are described as follows:

(i) Classification of financial assets

In accordance with IFRS 9, the Group classifies its financial assets based on the assessments of the business models in which the assets are held at a portfolio level and whether cash flows generated by assets constitute solely payments of principal and interest ("SPPI"). This requires significant judgement in evaluating how the Group manages its business model and on whether or not a contractual clause in all debt instruments of a certain type breaches SPPI and results in a material portfolio being recorded at fair value through profit or loss ("FVTPL").

(ii) Measurement of the expected credit loss allowance

The measurement of the expected credit loss ("ECL") allowance for financial assets measured at amortised cost and fair value through other comprehensive income ("FVOCI") is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk ("SICR");
- Determining the criteria and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

(iii) Fair value of derivatives and unquoted securities

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values, these are tested before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however area such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

3 Basis of preparation (continued)

d) Use of estimates and judgments (continued)

(iv) Repossessed properties

The fair value of repossessed properties were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's repossessed properties portfolio annually.

4 Summary of significant accounting policies

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

IFRS 15, Revenue from contracts with customers, effective for annual periods beginning on or after 1 January 2018, has no material impact on the consolidated financial statements of the Group.

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

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

IFRS No.	Title	Effective for annual periods beginning on or after
IFRS 16	Leases	1 January 2019
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019

The Group has plans in place for adhering to the above new standard issued but not yet effective for the Group's financial year beginning on 1 January 2018 and is currently assessing its impact.

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

4.3 Changes in accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except for the changes in accounting policies mentioned below.
The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial information.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition have been recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures reflect those disclosures made in the prior period.

The adoption of IFRS 9 has resulted in changes in accounting policies for impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group.

Financial Assets	IAS 39 carrying amount 31 December 2017 AED '000	Remea-surements AED '000	IFRS 9 carrying amount 1 January 2018 AED '000
Cash and balances with central banks	2,261,183	-	2,261,183
Due from banks	398,604	(88)	398,516
Loans and advances to customers	12,465,634	(299,700)	12,165,934
Investment securities - FVTPL	10,162	-	10,162
Investment securities - FVOCI	135,757	-	135,757
Investment securities - amortised cost	399,020	(411)	398,609
	15,670,360	(300,199)	15,370,161

4 Summary of significant accounting policies (continued)

4.3 Changes in accounting policies (continued)

4.3.1 Financial assets and liabilities

(a) Measurement methods

(i) Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition; minus the principal repayments; plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset i.e. its amortised cost before any impairment allowance or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective interest rate. Any changes are recognised in the statement of income.

(ii) Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired, for which interest income is calculated by effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

(iii) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transactions costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fee and commissions. Transactions costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of income. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and at FVOCI, which results in accounting loss being recognised in the statement of income when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

- In all other cases, the difference is deferred and the time of recognition of deferred day one profit or loss is determined individually. It is either amortised over life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

4 Summary of significant accounting policies (continued)

4.3 Changes in accounting policies (continued)

4.3.1 Financial assets and liabilities (continued)

(b) *Financial assets*

(i) Classification and subsequent measurement

The Group has early adopted the classification and measurement requirements of IFRS 9 and classifies its financial assets in the following measurement categories:

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

Debt instruments:

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and advances and investments in debt securities.

Classification and subsequent measurement of debt instruments depend on:

- the Group's business model for managing the assets; and
- the cash flow characteristics of the asset.

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

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

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

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of income within 'Other income' in the period in which it arise. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

4 Summary of significant accounting policies (continued)

4.3 Changes in accounting policies (continued)

4.3.1 Financial assets and liabilities (continued)

(b) Financial assets *(continued)*

(i) Classification and subsequent measurement (continued)

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

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

Equity instruments:

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

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to the statement of income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in the statement of income as other income when the Group's right to receive payments is established.

(ii) Impairment

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

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

(iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

4 Summary of significant accounting policies (continued)

4.3 Changes in accounting policies (continued)

4.3.1 Financial assets and liabilities (continued)

***(b) Financial assets** (continued)*

(iii) Modification of loans (continued)

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in the statement of income as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in the derecogntion, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in the statement of income.

The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownerships, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

(c) Financial liabilities

(i) Classification and subsequent measurement

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

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (eg. Short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at FVTPL presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in the statement of income;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments.

4 Summary of significant accounting policies (continued)

4.3 Changes in accounting policies (continued)

4.3.1 Financial assets and liabilities (continued)

(c) Financial liabilities (continued)

(ii) Derecognition

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

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in the covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(d) Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

(e) Loan commitments

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the underdrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

4 Summary of significant accounting policies (continued)

4.4 Accounting policies

(a) Basis of consolidation

Subsidiary

A subsidiary is an investee 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 financial statements of a subsidiary are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but to the extent that there is no evidence of impairment.

(b) Fees and commission income and expense

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are generally recognised on an accrual basis when the related service obligations are performed by the Group. When a loan commitment is not expected to result in the draw-down of a loan, commitment fees are recognised on a straight line basis over the commitment period. Other fees and commission expenses are expensed as the related services are received.

(c) Dividend income

Dividend income is recognised in the consolidated statement of profit or loss when the Group's right to receive such income is established. Usually this is the ex-dividend date for equity securities.

(d) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when, and only when, the Group has a legally enforceable right to set off the recognised 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 IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(e) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the 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 ongoing basis.

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

4 Summary of significant accounting policies (continued)

4.4 Accounting policies (continued)

***(e)* Fair value measurement principles** (continued)

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 the consolidated statement of 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.

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

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

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

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

***(f)* Derivative financial instruments - Other non trading derivatives**

The Group enters into derivative financial instruments primarily to meet its customer requirements. Derivatives held for internal risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value through profit or loss in the consolidated statement of financial position.

***(g)* Foreign currency**

(i) Foreign currency transactions

Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rates at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to UAE Dirhams at the spot foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in UAE Dirhams at the beginning of the year, adjusted for effective interest 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 to UAE Dirhams 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 transaction.

Foreign currency differences arising on translation are generally recognised in consolidated statement of profit or loss.

4 Summary of significant accounting policies (continued)

4.4 Accounting policies (continued)

(g) Foreign currency (continued)

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into UAE Dirhams at spot exchange rate at the reporting date. The income and expenses of foreign operations are translated to UAE Dirhams at spot exchange rates at the dates of the transactions.

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

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 profit or loss 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 NCI.

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 OCI, and accumulated in the translation reserve within equity.

(h) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent cost

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. On going repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight line method over their useful lives, and is generally recognised in consolidated statement of profit or loss. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

	Years
Buildings	20 to 30
Office installations and improvements	10
Office furniture and equipment	2 to 5
Motor vehicles	3

Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate. No depreciation is charged on freehold land and capital-work-in-progress. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of profit or loss.

4 Summary of significant accounting policies *(continued)*

4.4 Accounting policies (continued)

(i) Repossessed properties

The Group holds repossessed properties acquired through the enforcement of security over loans and advances. Repossessed property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in the consolidated statement of profit or loss. The Group determines fair value on the basis of valuations provided by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the repossessed property being valued. The Bank earns rental income from leasing the properties until the properties have been disposed.

(j) Staff terminal benefits

The Group provides for staff terminal benefits based on an estimation of the amount of future benefit that employees have earned in return for their service until their retirement. This calculation is performed based on a projected unit credit method.

The Group contributes to the pension scheme for UAE nationals under the UAE pension and social security law. This is a defined contribution pension plan and the Group's contributions are charged to the consolidated statement of profit or loss in the period to which they relate. In respect of this scheme, the Group has a legal and constructive obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows to reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(l) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

m) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

n) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, balances with central banks, amounts due from other banks and deposits from other banks that are held for the purpose of meeting short term cash commitments.

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

4 Summary of significant accounting policies (continued)

4.4 Accounting policies (continued)

(o) Loans and advances to customers

Loans and advances are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and the Group does not intend to sell immediately in the near future.

Loans and advances are initially measured at fair value plus incremental direct transaction costs. Subsequent to the initial recognition loans and advances are measured at amortised cost using the effective interest method, except when the Group recognises the loans and advances at fair value through profit or loss.

When the Group is a lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to the ownership of the asset to the lessee, the arrangement is classified as finance lease and a receivable equal to the net investment in lease is recognised and presented within loans and advances.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

(p) Investment securities

Investment securities are initially measured at fair value plus in case of investment securities not at fair value through profit or loss, incremental direct transaction cost. Subsequent to initial recognition investment securities are accounted for depending upon their classification as either amortised cost, fair value through profit or loss or fair value through other comprehensive income.

Investment securities are measured at amortised cost using the effective interest method, if:

- they are held within a business model with an objective to hold assets in order to collect contractual cash flow and the contractual terms of financial assets give rise, on specific dates, to cash flows that are solely payments of principal and interest; and
- they have not been designated previously as measured at fair value through profit or loss.

The Group elects to present changes in fair value of certain investments in equity and debt instruments held for strategic purpose in other comprehensive income. The election is irrevocable and is made on an instrument-by-instrument basis at initial recognition.

Gains and losses on such equity instruments are not reclassified to consolidated statement of profit or loss and no impairment is recognised in the consolidated statement of profit or loss.

Gains and losses on such debt instruments are reclassified to consolidated statement of profit or loss and impairment is recognised in the consolidated statement of profit or loss.

(q) Dividend on ordinary shares

Dividends payable on ordinary shares are recognised as a liability in the period in which they are approved by the Bank's shareholders.

(r) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

4 Summary of significant accounting policies (continued)

4.4 Accounting policies (continued)

(s) Operating leases

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the lease.

(t) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of a non-financial asset is the greater of its value in use and its fair value less cost to sell. The reduction in value is recognised in the consolidated statement of profit or loss.

An impairment loss is reversed only to the extent that assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

u) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are reviewed regularly by the management of the Group to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available.

5 Accounting classification of financial assets and financial liabilities

The table below shows a reconciliation between line items in the consolidated statement of financial position and categories of financial instruments.

At 31 December 2018	**FVTPL**	**FVTOCI**	**Others at amortised cost**	**Total carrying amount**
	AED '000	AED '000	AED '000	AED '000
Financial assets				
Cash and deposits with central banks	-	-	1,968,369	1,968,369
Due from banks	-	-	733,460	733,460
Investment securities	8,063	133,255	14,629	155,947
Loans and advances to customers	-	-	10,075,374	10,075,374
Customers' indebtedness for acceptances	-	-	350,945	350,945
Other financial assets	34	-	46,088	46,122
	8,097	**133,255**	**13,188,865**	**13,330,217**
Financial liabilities				
Due to banks	-	-	199	199
Deposits from customers	-	-	12,635,484	12,635,484
Liabilities under acceptances	-	-	350,945	350,945
Other financial liabilities	-	-	231,069	231,069
	-	-	**13,217,697**	**13,217,697**
At 31 December 2017				
Financial assets				
Cash and deposits with central banks	-	-	2,261,183	2,261,183
Due from banks	-	-	398,604	398,604
Investment securities	10,162	135,757	399,020	544,939
Loans and advances to customers	-	-	12,465,634	12,465,634
Customers' indebtedness for acceptances	-	-	556,856	556,856
Other financial assets	23	-	75,066	75,089
	10,185	135,757	16,156,363	16,302,305
Financial liabilities				
Due to banks	-	-	2,827	2,827
Deposits from customers	-	-	13,594,128	13,594,128
Liabilities under acceptances	-	-	556,856	556,856
Other financial liabilities	-	-	184,514	184,514
	-	-	14,338,325	14,338,325

6 Cash and deposits with central banks

	2018 AED'000	2017 AED'000
Cash in hand	**74,660**	68,676
Deposits with central banks	**1,457,634**	1,705,772
Reserve requirements with the CB UAE *(refer note 6.1)*	**387,720**	449,049
Reserve requirements with the CB Lebanon *(refer note 6.1)*	**48,355**	37,686
	1,968,369	2,261,183

6.1 Statutory reserve deposits are required to be maintained as per regulations of the CB UAE and the CB Lebanon.

7 Due from banks

	2018 AED'000	2017 AED'000
Money market placements	**605,967**	249,370
Balances with other banks	**127,657**	149,234
	733,624	398,604
Less: Allowance for impairment (ECL)	**(164)**	-
	733,460	398,604
The geographical concentration is as follows:		
- Within the U.A.E	**615,578**	256,978
- Outside the U.A.E	**118,046**	141,626
	733,624	398,604
Less: Allowance for impairment (ECL)	**(164)**	-
	733,460	398,604

8 Investment securities

The details of investments are as follows:	Domestic AED '000	Other GCC Countries AED '000	Others AED '000	Total AED '000
At 31 December 2018				
Financial assets measured at fair value through profit or loss (FVTPL):				
Investments in quoted equity securities	1,632	-	-	**1,632**
Investments in un-quoted funds	-	-	6,431	**6,431**
Financial assets measured at fair value through other comprehensive income (FVTOCI)				
Investments in quoted equity securities	131,780	1,008	-	**132,788**
Investments in un-quoted equity securities	467	-	-	**467**
Financial assets at amortised cost:				
Investments in debt securities	14,646	-	-	**14,646**
	148,525	**1,008**	**6,431**	**155,964**
Less: Allowance for impairment (ECL)	(17)	-	-	**(17)**
	148,508	**1,008**	**6,431**	**155,947**

8 Investment securities (continued)

	Domestic AED '000	Other GCC Countries AED '000	Others AED '000	Total AED '000
At 31 December 2017				
Financial assets measured at fair value through profit or loss (FVTPL):				
- Investments in quoted equity securities	3,704	-	-	3,704
- Investments in un-quoted funds	-	-	6,458	6,458
Financial assets measured at fair value through other comprehensive income (FVTOCI)				
- Investments in quoted equity securities	135,040	717	-	135,757
Financial assets at amortised cost:				
- Investments in debt securities	399,020	-	-	399,020
	537,764	717	6,458	544,939

8.1 The Group has purchased equity investments amounting to AED 29 million during the year ended 31 December 2018. (31 December 2017: AED 4.6 million).

9 Loans and advances to customers

	2018 AED'000	2017 AED'000
Overdrafts	**6,364,810**	5,459,266
Bills discounted	**526,350**	425,119
Trust receipts	**624,349**	749,977
Term loans	**6,302,624**	7,341,489
	13,818,133	13,975,851
Allowances for impairment (*refer note 9.1 and 9.2*)	**(3,742,759)**	(1,510,217)
Net loans and advances to customers	**10,075,374**	12,465,634

9.1 The movement during the year in the impairment provision is as follows:

	2018 AED'000	2017 AED'000
At 1 January	**1,510,217**	1,061,619
Initial application of IFRS 9	**299,700**	-
At 1 January (adjusted as per IFRS 9)	**1,809,917**	1,061,619
Charge for the year (*refer note 20*)	**1,716,424**	927,342
Recoveries during the year	**(19,072)**	(49,688)
Interest not recognised in the consolidated profit or loss statement	**237,676**	31,086
Amounts written off during the year	**(2,186)**	(460,142)
	3,742,759	1,510,217

10 Other assets

	2018	2017
	AED'000	AED'000
Interest receivable	31,251	69,181
Repossessed properties (*refer to note 10.1*)	587,191	523,787
Property plant and equipment (refer to note 11)	99,939	114,413
Prepayments and other assets	23,592	14,628
Customers' indebtedness for acceptances	350,945	556,856
	1,092,918	1,278,865

10.1 Repossessed properties were acquired in settlement of loans and advances. Refer to note 26 for further information on the Group's fair value hierarchy, the approach to determining the valuation of properties, including the valuation techniques and significant inputs.

11 Property and equipment

	Land and building	Office installation and impro-vements	Office furniture and equipment	Motor vehicles	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Cost					
At 31 December 2018	103,349	47,325	94,622	460	245,756
Accumulated depreciation					
At 31 December 2018	30,585	32,616	82,156	460	145,817
Net book value at 31 December 2018	72,764	14,709	12,466	-	99,939
Net book value at 31 December 2017	75,251	16,641	22,521	-	114,413

12 Due to banks

	2018	2017
	AED'000	AED'000
Demand deposits and total due to banks	199	2,827

13 Deposits from customers

	2018	2017
	AED'000	AED'000
Time deposits	9,056,266	10,376,743
Savings accounts	131,394	132,727
Current and other accounts	3,447,824	3,084,658
	12,635,484	13,594,128

Customer deposits by geographical area are as follows:

	2018	2017
Within the UAE	12,504,147	13,500,149
Others	131,337	93,979
	12,635,484	13,594,128

13.1 Customer deposits include AED 1,115 million received from the Government of Sharjah towards increase in share capital (note 2)

14 Other liabilities

	2018	2017
	AED'000	AED'000
Interest payable	122,569	132,282
Unearned commission income	40,473	54,382
Staff benefits payable	17,983	10,839
Accrued expenses	61,790	20,493
Manager's cheques	6,979	11,732
Liabilities under acceptances	350,945	556,856
Others	42,460	25,779
	643,200	812,363

15 Share capital and reserves

Share capital

At 31 December 2018, the Group's authorised, issued and fully paid share capital was AED 1,588.13 million comprising 1,588.13 million shares of AED 1 each (at 31 December 2017: AED 1,588.13 million comprising 1,588.13 million shares of AED 1 each).

As disclosed in note 2, subsequent to the year end, the issued and fully paid up share capital of the Bank has increased to AED 3.2 billion and its authorised share capital has increased to AED 6.3 billion.

Dividend

At the Annual General Meeting of the Bank held on 29 March 2018, no dividend was approved by the shareholders (2017: AED 128.3 million).

Reserves

Legal reserve

In accordance with the Article 239 of the U.A.E. Federal Law No. (2) of 2015, 10% of the annual profit is transferred to the Legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Transfers to the Legal reserve are made only at year end. The Legal reserve is not available for distribution. The legal reserve was AED 450.6 million at year end (2017: AED 450.6 million).

Special reserve

In accordance with the Article 82 of Union Law No. 10 of 1980, 10% of the annual profit is transferred to the Special reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the Bank's capital. The special reserve was AED 450.6 million at year end (2017: AED 450.6 million).

16 Net interest income

	2018 AED'000	2017 AED'000
Interest income:		
Deposits with banks	37,113	21,216
Debt securities	10,206	20,312
Loans and advances to customers	692,696	805,759
	740,015	847,287
Interest expense:		
Due to banks	(1,193)	(398)
Time deposits	(339,064)	(307,605)
Call deposits	(2,863)	(2,293)
Savings accounts and others	(2,618)	(2,697)
	(345,738)	(312,993)
	394,277	534,294

17 Net fees and commission income

	2018 AED'000	2017 AED'000
Fees and commission income:		
Letters of credit fee	35,430	34,726
Letters of guarantee fee	96,545	97,966
Retail and corporate lending fees	32,642	46,965
Commission on transfers	2,932	3,343
Others	23,583	25,632
	191,132	208,632
Fees and commission expenses:		
Service charges and other expense	(378)	(362)
	190,754	208,270

18 Other income

	2018 AED'000	2017 AED'000
Dividend on investment securities	8,165	5,134
Rental income	10,338	8,809
Realised (loss) / gain on investment securities at FVTPL	(1,052)	417
Fair value adjustment for financial assets at fair value through profit or loss	577	1,278
Fair value loss on repossessed properties	(109,985)	(9,000)
Other operating income	825	25,894
	(91,132)	32,532

19 General and administrative expenses

	2018	2017
	AED'000	AED'000
Personnel and related costs	**(149,027)**	(144,866)
Premises and related expenses	**(21,322)**	(18,339)
Profesisonal expenses	**(50,164)**	(3,931)
Depreciation and other expenses	**(65,280)**	(33,135)
	(285,793)	(200,271)

20 Net impairment loss

	2018	2017
	AED'000	AED'000
Gross impairment charge for the year	**1,716,424**	927,342
Recoveries (*refer note 20.1*)	**(21,542)**	(54,853)
	1,694,882	872,489

20.1 Includes AED 2.5 million (2017: AED 5.2 million) recovered from balances previously written off.

21 Earnings per share

Basic earnings per share is based on the loss attributable to ordinary shareholders of the Bank and weighted average number of ordinary shares.

	2018	2017
	AED'000	AED'000
Loss attributable to ordinary share holders	**(1,472,145)**	(277,745)
Weighted average number of shares outstanding at 31 December	**1,588,125**	1,588,125
Earnings per share (UAE Dirhams)	**(0.927)**	(0.175)

At reporting date the Group does not have any instrument resulting in dilution of basic earnings per share.

22 Cash and cash equivalents

	2018	2017
	AED'000	AED'000
Cash and deposits with central banks (*refer note 6*)	**1,532,294**	1,774,448
Due from banks maturing within three months (*refer note 7*)	**733,624**	398,604
Due to banks maturing within three months	**(199)**	(2,827)
	2,265,719	2,170,225

23 Related party transactions

In the normal course of business, the Group enters into various transactions with related parties including Board of directors, their related companies and key management personnel having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director, executive or otherwise, of the Group. The related party transactions are executed at the terms agreed between the parties. The volume of related party transactions, outstanding balances at the year end, and related income and expenses for the year are as follows:

	2018		2017	
	Board of directors AED'000	Companies associated with Board of directors AED'000	Board of directors AED'000	Companies associated with Board of directors AED'000
Loans				
Loans outstanding at 31 December	**56,075**	**731,089**	38,357	564,218
Interest income earned during the year	**2,054**	**34,716**	1,728	28,812
Outstanding letters of credit and guarantees at 31 December	**5,375**	**187,029**	5,375	14,175
Deposits				
Deposits at 31 December	**267,538**	**1,947,485**	273,059	611,433
Interest expense charged during the year	**8,244**	**66,180**	7,946	17,510

None of the loans granted to related parties are impaired or past due as at 31 December 2018 (31 December 2017: Nil).

The loans extended to directors during the year are repayable over 1 year and bear interest at rates ranging from 4 % to 10 % per annum (2017: 4% to 10%). At 31 December 2018, outstanding loans and advances due from related parties are secured by deposits under lien amounting to AED 774.8 million (2017: AED 551.7 million).

Key management compensation	**2018** AED'000	2017 AED'000
Board of Directors*	**1,500**	4,300
Key management	**11,098**	10,220
Termination benefits	**822**	368
	13,420	14,888

*In accordance with UAE law, compensation to the Board of Directors in 2017 includes directors remuneration of AED 2.8 million
No remuneration was paid to the Board of Directors in 2018.

24 Commitments and contingent liabilities

At any time, the Group has outstanding commitments to extend credit. These commitments take the form of approved loan facilities. Outstanding loan commitment have committed periods that do not extend beyond the normal underwriting and settlement period.

The Group provides financial guarantees and letter of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend up to a period of one year.

The contractual amount of commitments and contingent liabilities are set out in the following table by category.

	2018 AED'000	2017 AED'000
Letters of credit	**316,958**	743,882
Letters of guarantee	**6,160,794**	7,351,007
Irrevocable commitments to extend credit	**200,308**	521,639
Foreign exchange and forward commitments	**758,350**	230,285
	7,436,410	8,846,813

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect third parties to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Exposure by geography as on 31 December

	Irrevocable commitments to extend credit		Foreign exchange and forward commitments		Contingent liabilities	
	2018 AED'000	2017 AED'000	**2018 AED'000**	2017 AED'000	**2018 AED'000**	2017 AED'000
United Arab Emirates	**200,308**	521,639	**758,350**	230,285	**6,419,950**	8,042,510
Other Arab Countries	-	-	-	-	**57,802**	52,379
	200,308	521,639	**758,350**	230,285	**6,477,752**	8,094,889

Exposure by currency as on 31 December

	Irrevocable commitments to extend credit		Foreign exchange and forward commitments		Other commitments and contingent liabilities	
	2018 AED'000	2017 AED'000	**2018 AED'000**	2017 AED'000	**2018 AED'000**	2017 AED'000
Foreign currency	**1,042**	735	**758,350**	230,285	**383,967**	575,152
AED	**199,266**	520,904	**(758,350)**	(230,285)	**6,093,785**	7,519,737
Total	**200,308**	521,639	-	-	**6,477,752**	8,094,889

24 Commitments and contingent liabilities (continued)

Exposure by industry segment as on 31 December

	Irrevocable commitments to extend credit		Foreign exchange and forward commitments		Other commitments and contingent liabilities	
	2018	2017	**2018**	2017	**2018**	2017
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Agriculture, and allied activities	-	-	-	-	**3,768**	4,883
Mining and quarrying	-	-	-	-	**4,338**	6,538
Manufacturing	**419**	32,740	-	-	**617,210**	917,394
Construction and real estate	**135,698**	248,990	-	-	**4,116,521**	5,176,998
Trade	**10,890**	6,782	**758,350**	230,285	**740,880**	1,023,488
Transport, storage and communication	-	5,307	-	-	**107,033**	110,967
Financial institutions	-	52,800	-	-	**193,985**	123,503
Other services	**29,906**	67,150	-	-	**464,870**	543,604
Government	-	-	-	-	-	-
Loans to individuals	**5,499**	3,429	-	-	**520**	1,072
Loans to high net worth individuals	**11,500**	30,203	-	-	**11,518**	12,598
Others	**6,396**	74,238	-	-	**217,109**	173,844
Total	**200,308**	521,639	**758,350**	230,285	**6,477,752**	8,094,889
Exposure by maturity as on 31 December						
Less than 3 months	**89,695**	289,409	**758,350**	230,285	**1,769,171**	190,652
More than 3 months	**110,613**	232,230	-	-	**4,708,581**	7,904,237
Total	**200,308**	521,639	**758,350**	230,285	**6,477,752**	8,094,889

25 Segmental analysis

Reportable segments are identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker, in order to allocate resources to the segment and to assess its performance

The Group operates in the United Arab Emirates and Lebanon, and its results arise largely from commercial banking, treasury and investment activities. Information with respect to business segments is as follows:

	Year ended 2018			Year ended 2017		
	Commercial banking AED'000	**Treasury & investments AED'000**	**Total AED'000**	Commercial banking AED'000	Treasury & investments AED'000	Total AED'000
Net interest and other income	**446,854**	**61,676**	**508,530**	733,381	61,634	795,015
Net impairment loss	**(1,673,796)**	**(21,086)**	**(1,694,882)**	(858,821)	(13,668)	(872,489)
(Loss) / profit for the year	**(1,495,291)**	**23,146**	**(1,472,145)**	(334,045)	56,300	(277,745)
Segment capital expenditure	**10,935**	-	**10,935**	14,754	-	14,754
Segment depreciation	**22,399**	**3,010**	**25,409**	10,868	913	11,781
At 31 December						
Segment total assets	**11,277,476**	**2,748,592**	**14,026,068**	14,075,516	2,873,709	16,949,225
Segment total liabilities	**13,090,721**	**188,162**	**13,278,883**	14,079,565	329,753	14,409,318

26 Fair value of assets and liabilities

a) Fair value hierarchy of assets/liabilities measured at fair value

The fair values of assets and liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other assets/liabilities, the Group determines fair values using other valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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: Quoted market price (unadjusted) in an active market for an identical instrument.

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.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

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

	Level 1	Level 2	Level 3	Total
At 31 December 2018	AED '000	AED '000	AED '000	AED '000
Financial assets				
FVTPL - equity securities	1,632	-	6,431	**8,063**
FVTOCI - equity securities	132,788	-	467	**133,255**
Non financial assets				
Repossessed properties	-	-	587,191	**587,191**
	134,420	**-**	**594,089**	**728,509**
At 31 December 2017				
Financial assets				
FVTPL - equity securities	3,704	-	6,458	10,162
FVTOCI - equity securities	135,757	-	-	135,757
Non financial assets				
Repossessed properties	-	-	523,787	523,787
	139,461	-	530,245	669,706

26 Fair value of assets and liabilities (continued)

a) Fair value hierarchy of assets/liabilities measured at fair value (continued)

	31 Dec 2018		31 Dec 2017	
	Investment securities	Investment properties	Investment securities	Investment properties
	AED'000		AED'000	
Balance as at 1 January	6,458	523,787	113,436	400,427
Fair value changes:				
- in profit or loss	258	(109,985)	-	(9,000)
- in OCI	-	-	10,000	-
Transfer	-	-	(121,482)	121,482
Additions	3,674	173,389	4,504	13,952
Disposals	(3,959)	-	-	(3,074)
Balance as at 31 December	6,431	587,191	6,458	523,787

Although the Bank believes that it's estimates at fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurement in level-3, changing the assumptions by 1% (+/-), would not have any significant impact on the Group's consolidated financial statements.

Valuation of investment securities

The bank constantly monitors the progress of its investments by conducting its own valuation assessment. Depending on the nature of the underlying asset, quantitative methods are used such as residual value, DCF/scenario analysis or comparable market valuation. The unobservable inputs are selected based on various industry and macroeconomic factors that management considers as reasonable. Qualitative methods which involve taking into consideration the market and economic outlook are also employed.

Valuation of repossessed properties

The fair value of repossessed properties were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's repossessed properties portfolio annually.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of repossessed properties, as well as the significant unobservable inputs used.

The Group has taken the highest and best use fair values for the fair value measurement of its repossessed properties.

Valuation technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and fair value measurements
Cost method	Expected market rental growth rate	If there is a change in the estimate of expected market rental growth rate.
Sales comparison method	Free hold property	The property is not free hold.
	Free of covenants, third party rights and obligations	If the property becomes subject to any covenants, rights and obligations.
	Statutory and legal validity	If the property becomes subject to any adverse legal notices / judgments.
	Prices of similar sites or properties in the vicinity.	If there is a reduction in prices of properties in the immediate vicinity.

26 Fair value of financial instrument (continued)

b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

At 31 December 2018	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total fair value AED '000	Total carrying amount AED '000
Financial assets					
Cash and deposits with central banks	-	1,968,369	-	1,968,369	1,968,369
Due from banks	-	733,460	-	733,460	733,460
Investment securities	14,434	-	-	14,434	14,629
Loans and advances to customers	-	-	10,075,374	10,075,374	10,075,374
Customers' indebtedness for acceptances	-	-	350,945	350,945	350,945
Other financial assets	-	46,122	-	46,122	46,122
	14,434	**2,747,951**	**10,426,319**	**13,188,704**	**13,188,899**
Financial liabilities					
Due to banks	-	199	-	199	199
Deposits from customers	-	12,635,484	-	12,635,484	12,635,484
Liabilities under acceptances	-	-	350,945	350,945	350,945
Other financial liabilities	-	231,069	-	231,069	231,069
	-	**12,866,752**	**350,945**	**13,217,697**	**13,217,697**

At 31 December 2017	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total fair value AED '000	Total carrying amount AED '000
Financial assets					
Cash and deposits with central banks	-	2,261,183	-	2,261,183	2,261,183
Due from banks	-	398,604	-	398,604	398,604
Investment securities	412,553	-	-	412,553	399,020
Loans and advances to customers	-	-	12,465,634	12,465,634	12,465,634
Customers' indebtedness for acceptances	-	-	556,856	556,856	556,856
Other financial assets	-	75,089	-	75,089	75,089
	412,553	2,734,876	13,022,490	16,169,919	16,156,386
Financial liabilities					
Due to banks	-	2,827	-	2,872	2,872
Deposits from customers	-	13,594,128	-	13,594,128	13,594,128
Liabilities under acceptances	-	-	556,856	556,856	556,856
Other financial liabilities	-	184,514	-	184,514	184,514
	-	13,781,469	556,856	14,338,370	14,338,370

26 Fair value of financial instrument (continued)

b) Financial instruments not measured at fair value (continued)

i. In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to it's fair value.

ii. In respect of investments in sukuks/bonds, management has used the quoted price when available to assess fair value or used a Discounted Cash Flow (DCF) methodology based on market observable inputs.

iii. Long term loans and advances to customers are fair valued based on DCF which takes into account original underlying cash borrower credit grading and expected prepayments. These features are used to estimate expected cash flows and discounted at risk-adjusted rates. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

iv. Fair values of deposits from banks and customers is estimated using DCF, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is considered to be the amount payable at the reporting date.

27 Risk management

***a)* Introduction and overview**

The Group has exposure to several risk categories and it has frameworks to cover all material risks across the Bank, in addition to the following primary risks:

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

The other distinct risks included in the Internal Capital Adequacy Assessment Process (ICAAP) of the Bank are concentration, business / strategic, regulatory, compliance, reputation and legal risks. Furthermore, since cyber security risks have come to the forefront, Bank has placed emphasis on information security risk and has invested heavily to deploy state of the art architecture.

This note presents information about the Group's exposure to each of the above primary risks, the Group's objectives, risk management frameworks, policies and processes for measuring and managing risks, and the Group's capital management plan.

Governance and Risk Management Framework (RMF)

The Board of Directors (the "Board" or "BOD") has the ultimate responsibility for the establishment and oversight of the Group's Risk Management Framework. For that purpose the board has formulated, in line with international best practices, the following committees at board level to help manage various risks the Bank faces:

a. Board Audit & Compliance Committee;
b. Board Risk Committee;
c. Board Executive Credit Committee; and
d. Board Nomination and Remuneration Committee.

The Board Risk Committee has been entrusted with the mandate of risk management and the Executive Credit Committee has been entrusted with the approval of the credit and investment decisions as per delegation from the Board of Directors.

The various Board Committees are assisted by the following Senior Management Committees: Asset Liability Committee (ALCO); Management Committee, Management Credit Committee; IT Committee; and an Information Security Committee.

27 Risk management (continued)

a) Introduction and overview (continued)

Bank has implemented the Basel III Frameworks, IFRS 9 and is in the process forming appropriate committees to assign distinct responsibilities to members of the senior management.

Regular audit of business units and Group credit processes are undertaken by internal audit. Furthermore, Control and Compliance functions have been enhanced.

Under the purview of the Risk Management Department, the Group is making steady progress in its initiatives to embrace an Enterprise Risk Management (ERM) framework to enable the business and functional units to manage all risks in a pro-active manner while integrating concepts of strategic planning, operational risk management, internal controls, and compliances. These include methods and processes, encompassing all risk dimensions to seize the opportunities related to the achievement of the Group's objectives.

Credit Risk Management Department (CRMD) has formulated Credit Risk policies aligned with Group's strategies, goals vis-a-vis risk appetite, including collateral management policies, credit assessment, risk grading and reporting, risk rating in compliance with regulatory requirements.

Risk Appetite Statement (RAS) and Frameworks for translating policies defining "risk appetite" and "risk tolerance" levels to measurement techniques are in advanced stages to link to appropriate risk limits, controls and capital management planning (CMP) frameworks.

Review of risk management policies and systems is a regular activity to reflect changes in market conditions, products and services offered by the Group in order to present a comprehensive view of risk from a strategic and operational perspective and have a process to address risk proactively.

b) Credit 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 loans and advances to customers, contingent liabilities, balances due from banks, Deposits and reserve with the Central Bank, other assets and debt securities.

It is also the risk of loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to whom the Group is exposed - in the form of counterparty default risk, or (credit) spread risk, or market risk concentrations.

Management of credit risk

The Board of Directors has delegated the responsibilities of the management of credit risk to its Executive Credit Committee (ECC) and Management Credit Committee (MCC). Changes to discretionary limits are subject to the Board's approval. Similarly, facilities in excess of discretionary limits are approved by the ECC or the Board of Directors.

A separate and centralised credit risk management division ("CRMD") is responsible for oversight of the Group's credit risk, which comprises of various independent functions, including but not limited to credit assessment and evaluation, monitoring, control, administration and documentation.

27 Risk management (continued)

b) **Credit Risk** (continued)

Management of credit risk (continued)

The broad functions of CRMD include:

- Formulating credit policies in consultation with business units, covering credit assessment, collateral requirements, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Reviewing and assessing credit risk in accordance with delegation & authority structure, limits and discretionary powers prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;
- Limiting concentrations of credit exposure to counterparties and industries in line with RAS by establishing exposure caps and monitoring sectoral exposures. Preferred sectors are identified and reviewed regularly in line with market dynamics. Accordingly marketing initiatives are directed either to expand / reduce or to balance risk / reward trade offs;
- Reviewing compliance on an ongoing basis with approved exposure limits relating to counterparties, industries and countries. Regular reports are provided to the management, MCC, Executive Credit Committee and the Board of Directors on the quality of portfolios and appropriate corrective action is initiated when necessary; and
- Providing advice, guidance and specialised skills to business units to promote best practices throughout the Group in the management of credit risk.

For financial institutions, the Group uses external ratings issued by Standard and Poor's, Moody's, Fitch, Capital Intelligence or other recognised credit rating agencies in order to manage its credit risk exposure.

The Group has adopted a Standardised Approach for credit risk and market risk and a Basic Indicator Approach for Operational Risk. Models for Internal Rating, categorizing the exposures according to the degree of risk of financial loss have been developed and are in use since 2012. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigants. In addition, the Group has proactively developed frameworks for IRB (Internal Rating Based) approach in anticipation of Central Bank guidelines. In preparation for the implementation of the IRB approaches and building a strong database, the Group introduced online processing of credit applications and rating of all counterparties.

(i) Credit risk measurement

Loans and advances (including loan commitments, LCs and LGs)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

27 Risk management (continued)

***b)* Credit Risk** (continued)

(i) Credit risk measurement (continued)

Credit risk grading (continued)

The Group uses internal credit risk grading's that reflect its assessment of the probability of default of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data input into the model.

The credit grades are calibrated such that risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between an A and A- rating grade is lower than the difference in the PD between a B and B- rating grade.

The following are additional considerations for each type of portfolio held by the Group:

Retail:
After the initial recognition of credit grade, for retail business, the payment behaviour of the borrower is monitored to establish the grade of the customer based on the stage of delinquency/account conduct.

Corporate:
For corporate business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as financial statements. This will determine the updated internal credit rating and PD.

Treasury
For investments in debt instruments, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PD's associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

(ii) Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses from all possible default events over the lifetime.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.

27 Risk management (continued)

***b)* Credit Risk** (continued)

(ii) Expected credit loss measurement (continued)

Significant increase in credit risk (SICR)

The Group considers a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

Corporate Loans:
For corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following quantitative factors:

- A credit risk rating (CRR) downgrade of 2 or more notches is considered significant in case the origination rating is below BBB+, hence the related facility shall be classified at Stage 2.
- If the origination rating is B+ (6+) and below (inclusive), a CRR downgrade of 1 or more notches is considered significant, hence the related facility shall be classified at Stage 2 since the movement of related PD is higher.
- Loan facilities restructured in the last 12 months;
- Loan facilities that are past due for 30 days and above but less than 90 days;
- Loan facilities without original rating and not within the investment grade.

Retail:
For Retail portfolio, if the borrowers meet one or more of the following criteria:
- Adverse findings for an account/ borrower as per credit bureau data;
- Loan rescheduling before 30 DPD;
- Accounts overdue between 30 and 90 days.

Treasury:
- Significant increase in probability of default of the underlying treasury instrument;
- Significant change in the financial instruments' expected performance and behaviour of borrower.

Qualitative criteria:

Corporate Loans:
For corporate loans, if the borrower experiences a significant increase in probability of default, which can be triggered by the following qualitative factors:

- Past due
- Net worth erosion
- Fraudulent activity
- Distressed restructure
- Financial covenants breach
- Significant operations disruption

Backstop:
A backstop is applied and the financial asset considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

27 Risk management (continued)

b) **Credit Risk** (continued)

(iii) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:

The obligor is more than 90 days past due on its contractual obligation to the Group.

Qualitative criteria:

The Group considers a default to have occurred with regard to particular obligors when either one of the following events have taken place:

- The Group considers that the obligor is unlikely to pay its credit obligation to the Group in full without recourse by the Group to actions like realizing security (if held).
- The Group puts the credit obligation on a non-accrual status.
- The Group makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Bank taking on the exposure.
- The Group sells the credit obligation at a material credit-related economic loss.
- The Group consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest and other fees.
- The Group has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Group.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Group's expected loss calculations.

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

Measuring ECL - Inputs, assumptions and estimation techniques

ECL is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Group is expecting to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

27 Risk management (continued)

***b)* Credit Risk** (continued)

Measuring ECL - Inputs, assumptions and estimation techniques (continued)

- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each quarterly period and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- For amortising products and bullet repayments loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation, based on analysis of the Group's recent default data.

The 12M and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and prices.

Forward-looking economic information is also included in determining the 12M and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer below for an explanation of forward-looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

27 Risk management (continued)

b) **Credit Risk** (continued)

Measuring ECL - Inputs, assumptions and estimation techniques (continued)

Forward-looking information incorporated in the ECL Models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk are oil prices and UAE equity prices.

Credit rating and measurement

The risk rating system is the basis for determining the credit risk of the Group's asset portfolio (except the retail portfolio) and thus asset pricing, portfolio management, determining finance loss provisions and reserves and the basis for credit approval authority delegation. A grading system is being used by the Group which is based on the Group's internal estimate of probability of default, with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Group's Management Credit Committee ("MCC") / Board Executive Credit Committee ("ECC") within the authorities delegated by the Board of Directors.

Credit monitoring

The Group regularly monitors credit exposures and external trends which may impact risk management outcomes. Internal risk management reports are presented to the Chief Risk Officer and Board Risk Committee, containing information on key variables; portfolio delinquency and financing impairment performance.

All Corporate accounts are monitored carefully for performance and reviewed formally on an annual basis or earlier. Group has robust policies for client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed well in time. An exposure is categorised as watch list or non-performing as per UAE Central Bank guidelines. An early warning process is in place for regular review of accounts.

All non-performing accounts are monitored closely by the Remedial Management Unit of the Group directly reporting to the Chief Risk Officer (CRO). Such accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement and exit of the account.

With respect to the Group's retail portfolio, asset quality is monitored closely with 30/60/90 days past due accounts and delinquency trends are monitored continuously for each Retail Product of the Group. Accounts which are past due are subject to collection process, managed independently.

Credit mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, plant and machinery; marketable securities and bank guarantees etc. Risk mitigation policies control the approval of collateral types.

Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types to arrive at their fair values. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure.

27 **Risk management** (continued)

b) **Credit Risk** (continued)

Credit risk exposure - Financial instrument subject to impairment

The following table contains an analysis of the credit risk exposure of financial assets which are subject to ECL. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets:

	2018				2017
	Stage 1	Stage 2	Stage 3		
Credit risk exposures relating to on-balance sheet assets are as follows:	12 month ECL AED '000	Lifetime ECL AED '000	Lifetime ECL AED '000	Total AED '000	Total AED '000
Cash and balances with central banks	1,968,369	-	-	1,968,369	2,261,183
Expected credit loss/ impairment loss	-	-	-	-	-
Carrying amount	**1,968,369**	**-**	**-**	**1,968,369**	**2,261,183**
Due from banks					
Investment-grade	694,749	-	-	694,749	238,280
BB+ & below	38,875	-	-	38,875	160,324
	733,624	-	-	733,624	398,604
Expected credit loss/ impairment loss	(164)	-	-	(164)	-
Carrying amount	**733,460**	**-**	**-**	**733,460**	**398,604**
Customer exposures					
Central Bank classification					
Standard	5,462,186	2,588,821	-	8,051,007	11,538,400
Watchlist	-	657,048	-	657,048	705,436
Substandard	-	-	1,387,847	1,387,847	773,936
Doubtful	-	-	2,211,825	2,211,825	820,308
Loss	-	-	1,510,406	1,510,406	137,771
	5,462,186	3,245,869	5,110,078	13,818,133	13,975,851
Expected credit loss/ impairment loss	(44,646)	(256,596)	(3,441,516)	(3,742,759)	(1,510,217)
Carrying amount	**5,417,540**	**2,989,273**	**1,668,562**	**10,075,374**	**12,465,634**
Investments in Debts securities and Sukuk					
Investment-grade	14,646	-	-	14,646	399,020
Loss allowance	(17)	-	-	(17)	-
Carrying amount	**14,629**	**-**	**-**	**14,629**	**399,020**

27 Risk management (continued)

b) **Credit Risk** (continued)

Loss allowance

The following table explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	2018			
	Stage 1 12 month ECL **AED '000**	Stage 2 Lifetime **AED '000**	Stage 3 Lifetime **AED '000**	Total **AED '000**
Due from banks				
Loss allowance as at 1 January	88	-	-	**88**
New financial assets originated	76	-	-	**76**
Loss allowance as at 31 December 2018	**164**	**-**	**-**	**164**
Customer exposures				
Loss allowance as at 1 January	651,283	409,576	749,058	**1,809,917**
Transfers				
Transfer from Stage 1 to Stage 2	(10,742)	10,742	-	**-**
Transfer from Stage 1 to Stage 3	(510,941)	-	510,941	**-**
Transfer from Stage 2 to Stage 1	2,484	(2,484)	-	**-**
Transfer from Stage 2 to Stage 3	-	(327,246)	327,246	**-**
Transfer from Stage 3 to Stage 1	13	-	(13)	**-**
Transfer from Stage 3 to Stage 2	-	8	(8)	**-**
New originations and changes in PDs/LGDs/EADs	(87,451)	166,001	1,854,292	**1,932,842**
Loss allowance as at 31 December 2018	**44,646**	**256,597**	**3,441,516**	**3,742,759**
Investments in debts and sukuk – at amortised cost				
Loss allowance as at 1 January	411	-	-	**411**
Changes in PDs/LGDs/EADs	(394)	-	-	**(394)**
Loss allowance as at 31 December 2018	**17**	**-**	**-**	**17**

27 Risk management (continued)

b) **Credit Risk** (continued)

Gross exposure

The following table explain the changes in the gross exposure between the beginning and the end of the annual period due to these factors:

	2018			
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL	Lifetime ECL	Total
	AED '000	**AED '000**	**AED '000**	**AED '000**
Due from banks				
Gross exposure as at 1 January	398,604	-	-	**398,604**
New financial assets originated	335,020	-	-	**335,020**
Gross exposure as at 31 December 2018	**733,624**	-	-	**733,624**
Customer exposures				
Gross exposure as at 1 January	9,957,515	2,720,201	1,298,135	**13,975,851**
Transfers				
Transfer from Stage 1 to Stage 2	(2,257,538)	2,257,538	-	-
Transfer from Stage 1 to Stage 3	(2,388,925)	-	2,388,925	-
Transfer from Stage 2 to Stage 1	149,931	(149,931)	-	-
Transfer from Stage 2 to Stage 3	-	(1,582,729)	1,582,729	-
Transfer from Stage 3 to Stage 1	1,203	-	(1,203)	-
Transfer from Stage 3 to Stage 2	-	790	(790)	-
Changes in PDs/LGDs/EADs	-	-	(157,718)	**(157,718)**
Gross exposure as at 31 December 2018	**5,462,186**	**3,245,869**	**5,110,078**	**13,818,133**
Investments in debts and sukuk – at amortised cost				
Gross exposure as at 1 January	399,020	-	-	**399,020**
Changes in PDs/LGDs/EADs	(384,374)	-	-	**(384,374)**
Gross exposure as at 31 December 2018	**14,646**	-	-	**14,646**

27 Risk management (continued)

***b)* Credit Risk** (continued)

Other financial assets exposed to credit risk are as follows:

	2018 AED'000	2017 AED'000
Deposits and reserves with Central Bank	1,893,709	2,192,507
Due from banks	733,460	398,604
Debt securities	14,646	399,020
Customer acceptance	350,945	556,856
Contingent liabilities	517,266	1,273,273
Other financial assets	46,122	75,089
	3,556,148	4,895,349

The table below sets out the credit quality of debt securities which is based on the rating of the respective debt security. The analysis has been based on 'Standard & Poor's ratings (or its equivalent) where applicable

	Government bonds		Corporate bonds		Total	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Rated A- and above	-	-	7,300	22,038	7,300	22,038
Rated BBB+ to BB	-	-	-	160,330	-	160,330
Unrated	-	135,846	7,346	80,806	7,346	216,652
	-	135,846	14,646	263,174	14,646	399,020

Investments in Unrated portfolio represents bonds with no specific credit rating, however the issuers are rated A+ to BBB+.

Impaired loans and advances

Impaired loans and advances are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s). These loans are classified as substandard, doubtful or loss, as appropriate, which is in accordance with the guidelines issued by the CB UAE.

Past due but not impaired loans

These are loans and advances where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of a repayment source such as assigned receivables, the level of security/collateral available and/or the possible scope of collection of amounts owed to the Group.

Allowances for impairment

The Group establishes allowance for impairment losses that represents its estimate for incurred losses in its loan portfolio. The main components of this allowance are specific losses that relates to individually significant exposures and a collective impairment established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

27 Risk management (continued)

b) **Credit Risk** (continued)

Write-off policy

The Group writes off loans/securities (and any related allowances for impairment losses) when it determines that there is no scope of recovery and the loans are uncollectible. The decision is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and there is no scope to pursue any other avenues, by writing down the debt to a nominal value.

Collateral and other credit enhancements

The Group holds collateral against funded and unfunded financing facilities in the form of cash margins, pledges/liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Group accepts guarantees mainly from well reputed local or international banks/financial institutions, well established local or multinational organisations, large corporates and high net worth individuals. Estimates of fair value are based on the value of collateral assessed at the time of borrowing which are generally updated during annual reviews or earlier as the Group deems it prudent given the circumstances and market trend / conditions. Collateral is generally not held over loans and advances to other banks or financial institutions, except when securities are held as a part of reverse repurchase and securities borrowing activity.

It is the Group's policy to ensure that loans are extended to customers within their capability to service interest and repay principal instead of relying excessively on securities/collaterals. Accordingly, depending on customers' credit worthiness and the type of product, facilities may be unsecured. Nevertheless, collateral is and can be an important credit risk mitigant.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below. Collateral values reflect the maximum exposure or the value of the collateral whichever is lower.

	2018 AED'000	2017 AED'000
Against neither past due nor impaired		
Cash	**2,582,330**	2,853,128
Commercial and industrial property	**2,338,626**	2,785,586
Residential property	**232**	3,677
Equities	**472,890**	355,069
Other	**330,547**	720,544
	5,724,625	6,718,004
Against past due but not impaired		
Cash	**88,502**	26,405
Commercial and industrial property	**518,047**	451,978
Other	**35,394**	6,100
	641,943	484,483
Against impaired		
Cash	**87,932**	50,180
Commercial and industrial property	**937,740**	290,786
Equities	**7,794**	7,787
Other	**133,187**	24,110
	1,166,653	372,863
Total collateral held	**7,533,221**	7,575,350

27 Risk management (continued)

b) Credit Risk (continued)

In accordance with the disclosure requirement of BASEL II Pillar 3 and the CB UAE guidelines, concentration of credit risk by industry segment and currency are as follows:

	Loans and advances		Debt securities		Due from banks	
	2018	2017	**2018**	2017	**2018**	2017
	AED '000	AED '000	**AED '000**	AED '000	**AED '000**	AED '000
Gross credit exposure by industry segment						
Agriculture, fishing and related activities	**2,287**	595	-	-	-	-
Mining and quarrying	**4,531**	18,186	-	-	-	-
Manufacturing	**2,408,299**	2,438,389	-	-	-	-
Electricity, gas and water	**2,941**	-	-	61,564	-	-
Construction	**3,607,669**	3,276,789	-	-	-	-
Real estate	**2,168,139**	1,980,084	-	29,384	-	-
Trade	**1,367,926**	1,550,956	-	-	-	-
Transport, storage and communication	**200,828**	203,789	-	-	-	-
Financial institutions	**1,343,972**	1,260,769	**7,346**	84,479	**733,624**	398,604
Other services	**1,183,650**	1,314,303	-	-	-	-
Government	**173,276**	408,118	-	154,211	-	-
Loans to individuals	**51,255**	84,282	-	-	-	-
Loans to high net worth individuals	**816,602**	834,754	-	-	-	-
Others	**486,759**	604,837	**7,300**	69,382	-	-
Total	**13,818,133**	**13,975,851**	**14,646**	**399,020**	**733,624**	**398,604**
Gross credit exposure by currency						
Foreign currency	**419,330**	391,561	**14,646**	399,020	**118,514**	142,641
AED	**13,398,803**	13,584,290	-	-	**615,110**	255,963
Total	**13,818,133**	**13,975,851**	**14,646**	**399,020**	**733,624**	**398,604**
Concentration by location						
United Arab Emirates	**13,232,129**	13,451,511	**14,646**	399,020	**615,579**	256,978
Other G.C.C.	**76,580**	48,850	-	-	**18,223**	13,420
Other Arab countries	**183,108**	157,990	-	-	**15,430**	27,058
Western Europe and others	**326,316**	317,500	-	-	**84,392**	101,148
Gross total	**13,818,133**	**13,975,851**	**14,646**	**399,020**	**733,624**	**398,604**

27 Risk management (continued)

b) Credit Risk (continued)

Impaired loans and advances by industry segment and geographical location as defined by the CB UAE:

2018	Overdues 90 days and above	Expected credit loss/ impairment allowance	Net impaired assets	Adjustments	
Concentration by industry segment				Write-offs	Write-backs
	AED '000	AED '000	AED '000	AED '000	AED '000
Mining and quarrying	4,531	1,382	3,149	-	-
Manufacturing	1,448,729	1,127,472	321,257	-	779
Electricity, gas and water	2,940	264	2,676	-	-
Construction and real estate	2,153,252	1,492,930	660,322	1,086	288
Trade	557,430	452,094	105,336	206	3,822
Transport, Storage and Communication	14,675	8,921	5,754	-	-
Financial Institutions	101,487	81,864	19,623	-	-
Other services	138,507	61,745	76,762	1,105	74
Loans to individuals	13,785	12,996	789	70	473
Loans to high net worth individuals	422,437	138,894	283,543	75	-
Others	252,305	62,954	189,351	-	108
Total	**5,110,078**	**3,441,516**	**1,668,562**	**2,542**	**5,544**
Concentration by geography					
United Arab Emirates	5,058,976	3,415,674	1,643,302	2,542	5,544
Others	51,102	25,842	25,260	-	-
Total	**5,110,078**	**3,441,516**	**1,668,562**	**2,542**	**5,544**

2017

Concentration by industry segment					
Mining and quarrying	-	-	-	17	-
Manufacturing	537,679	448,002	89,677	123,146	1,243
Construction and real estate	433,290	301,740	131,550	91,267	25,019
Trade	479,419	345,707	133,712	191,674	9,523
Transport, Storage and Communication	7,508	4,849	2,659	3,252	43
Financial Institutions	-	-	-	-	-
Other services	23,032	16,629	6,403	18,541	13
Loans to individuals	14,858	11,041	3,817	5,763	122
Loans to high net worth individuals	74,808	74,808	-	26,345	5,414
Others	161,421	41,000	120,421	137	13,476
Total	**1,732,015**	**1,243,776**	**488,239**	**460,142**	**54,853**
Concentration by geography					
United Arab Emirates	1,728,768	1,243,561	485,207	460,142	54,853
Others	3,247	215	3,032	-	-
Total	**1,732,015**	**1,243,776**	**488,239**	**460,142**	**54,853**

At reporting date the Group did not have any impaired loans overdue less than 90 days (2017: Nil).

27 **Risk management** (continued)

b) **Credit Risk** (continued)

Analysis of the Group's exposure based on BASEL II standardised approach:

All figures in AED '000

31 December 2018	**On balance sheet**	**Off balance sheet**	**Credit risk mitigation (CRM)**			**Risk weighted assets**
Asset classes	**Gross outstanding**	**Gross outstanding**	**Exposure before CRM**	**CRM**	**After CRM**	
Claims on sovereign	2,068,031	-	2,068,031	-	2,068,031	101,769
Claims on banks	740,970	911,783	1,652,753	-	1,652,753	259,754
Claims on corporates and GREs	5,329,793	3,018,972	8,344,930	1,910,238	6,434,692	5,136,950
Claims included in retail portfolio*	1,992,579	2,961,563	4,946,112	879,182	4,066,930	2,825,138
Claims secured by commercial real estate	304,376	97,211	401,587	27,094	374,493	296,724
Past due loans	5,955,277	797,827	3,358,946	150,330	3,208,616	3,368,612
High risk categories	734,176	-	599,231	-	599,231	898,847
Other assets	441,805	-	439,348	-	439,348	364,758
Total	**17,567,007**	**7,787,356**	**21,810,938**	**2,966,844**	**18,844,094**	**13,252,552**
31 December 2017						
Asset classes						
Claims on sovereign	2,736,900	-	2,736,900	-	2,736,900	97,872
Claims on public sector entities (PSEs)	79,888	-	79,888	-	79,888	-
Claims on banks	483,083	101,030	584,113	-	584,113	231,203
Claims on corporates and GREs	7,959,436	4,891,386	12,767,350	2,054,472	10,712,878	8,260,627
Claims included in retail portfolio*	2,973,101	3,879,995	6,852,869	1,099,057	5,753,812	4,019,557
Claims secured by commercial real estate	250,013	301,311	550,719	20,952	529,767	288,718
Past due loans	2,483,949	229,947	1,633,332	67,085	1,566,247	1,711,221
High risk categories	560,787	-	523,787	-	523,787	785,681
Other assets	414,887	-	412,430	-	412,430	343,753
Total	17,942,044	9,403,669	26,141,388	3,241,566	22,899,822	15,738,632

* Includes claims on SME portfolio (customers with annual turnover upto AED 250 million) amounting to AED 1,965 million (2017: AED 2,945 million) for on balance sheet and AED 2,962 million (2017: AED 3,880 million) for off balance sheet.

27 Risk management (continued)

b) Credit Risk *(continued)*

Analysis of the Group's exposure based on BASEL II Standardised Approach - rated and unrated:

2018

All figures in AED '000

Asset classes	Gross Credit Exposures Rated	Unrated	Exposure before CRM
Claims on sovereign*	-	2,068,031	2,068,031
Claims on banks	1,384,010	268,744	1,652,753
Claims on corporates and GREs	7,300	8,341,465	8,344,930
Claims included in retail portfolio	-	4,954,142	4,946,112
Claims secured by commercial real estate	-	401,587	401,587
Past due loans	-	6,753,104	3,358,946
High risk categories	-	734,176	599,231
Other assets	-	441,805	439,348
Total	**1,391,310**	**23,963,054**	**21,810,938**

2017

Asset classes	Gross Credit Exposures Rated	Unrated	Exposure before CRM
Claims on sovereign*	-	2,736,900	2,736,900
Claims on public sector entities (PSEs)	79,888	-	79,888
Claims on banks	341,502	242,611	584,113
Claims on corporates and GREs	98,765	12,752,057	12,767,350
Claims included in retail portfolio	-	6,850,096	6,852,869
Claims secured by commercial real estate	-	551,324	550,719
Past due loans	-	2,713,896	1,633,332
High risk categories	-	560,787	523,787
Other assets	-	414,887	412,430
Total	520,155	26,822,558	26,141,388

*Rated exposure includes exposure where risk weighted assets are calculated using external rating

27 Risk management (continued)

c) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with it's financial liabilities as they become due and at a reasonable cost. Liquidity risk can be segregated into three categories:-

(i) Mismatch or structural liquidity risk: the risk in the Group's current consolidated statement of financial position structure due to maturity transformation in the cash flows of individual positions;

(ii) Contingency liquidity risk: the risk that future events may require a significantly larger amount of cash than what the Group's projections allow. This can arise due to unusual deviations of timing of cash flows (term liquidity risk), e.g., non-contractual prolongation of loans, or unexpected draw downs on committed loan facilities (call/ withdrawal liquidity risk); and

(iii) Market liquidity risk: the risk that the Group cannot easily offset or eliminate a position at the market price because of market disruption or inadequate market depth.

Management of liquidity risk

Liquidity risk management has remained at the helm of risk management and receives close attention of the Board of Directors. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. All liquidity policies and procedures are subject to review and approval by Board & ALCO. The group is strengthening its Liquidity and Market Risk framework including monitoring of FI Limits. The key elements of the Group's liquidity strategy are as follows:

(i) Maintaining a diversified funding base consisting of customer deposits (both retail and corporate), wholesale market deposits, maintaining contingency facilities, annual budgeting and planning exercise forms the basis for developing the Bank's funding strategy.
(ii) Carrying a portfolio of high quality liquid assets, diversified by currency and maturity;
(iii) Monitoring liquidity ratios (ELAR, ASRR, LTD), maturity mismatches, behavioral characteristics of the Group's financial assets and liabilities, and the extent to which the Group's assets are encumbered and hence not available as potential collateral for obtaining funding; and
(iv) Carrying out stress testing of the Group's liquidity position.
(v) Maintaining adequate liquidity buffers.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets (i.e. total assets by maturity against total liabilities by maturity) and its loans to deposit ratio. The maturity profile is monitored by the management to ensure adequate liquidity is maintained.

As set out in note 2, the Bank's liquidity has been adversely impacted as a result of the significant deterioration in its credit portfolio. Consequently the Bank is in the process of increasing its share capital and the Central Bank of UAE has committed to support it with liquidity support as and when required.

27 Risk management (continued)

c) Liquidity Risk (continued)

Maturities of assets and liabilities

At 31 December 2018	Less than 3 months AED'000	3 months to 1 year AED'000	1 year and above AED'000	Total AED'000
Assets				
Cash and deposits with central banks	1,959,187	-	9,182	1,968,369
Due from banks	733,460	-	-	733,460
Investment securities	141,301	7,346	7,300	155,947
Loans and advances to customers	1,473,408	4,361,251	4,240,715	10,075,374
Customers' indebtedness for acceptances	191,617	122,757	36,571	350,945
Other assets	33,040	24,100	684,833	741,973
Total assets	**4,532,013**	**4,515,454**	**4,978,601**	**14,026,068**
Liabilities and equity				
Due to banks	199	-	-	199
Deposits from customers	6,150,464	6,483,280	1,740	12,635,484
Liabilities under acceptances	191,617	122,757	36,571	350,945
Other liabilities	137,686	113,676	40,892	292,254
Total liabilities	**6,479,966**	**6,719,714**	**79,203**	**13,278,883**
Net liquidity positions	**(1,947,953)**	**(2,204,260)**	**4,899,398**	**747,185**

At 31 December 2017	Less than 3 months AED'000	3 months to 1 year AED'000	1 year and above AED'000	Total AED'000
Assets				
Cash and deposits with central banks	2,252,001	-	9,182	2,261,183
Due from banks	398,604	-	-	398,604
Investment securities	214,791	76,812	253,336	544,939
Loans and advances to customers	2,524,565	6,011,439	3,929,630	12,465,634
Customers' indebtedness for acceptances	391,228	83,188	82,440	556,856
Other assets	72,564	15,154	634,291	722,009
Total assets	5,853,753	6,186,593	4,908,879	16,949,225
Liabilities and equity				
Due to banks	2,827	-	-	2,827
Deposits from customers	6,059,351	6,985,871	548,906	13,594,128
Liabilities under acceptances	391,228	83,188	82,440	556,856
Other liabilities	156,060	54,422	45,025	255,507
Total liabilities	6,609,466	7,123,481	676,372	14,409,318
Net liquidity positions	(755,712)	(936,887)	4,232,507	2,539,907

Maturities of assets and liabilities have been determined on the basis of the outstanding period from the reporting date to the contracted or expected maturity dates.

27 Risk management (continued)

c) Liquidity Risk (continued)

Residual contractual maturity of financial liabilities

The following table shows the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flow on these instruments may vary significantly from this analysis, for example demand deposits from customers are expected to maintain a stable or increasing balance and unrecognized loan commitments are not expected to be drawn down immediately.

2018	Carrying amount AED'000	Undiscounted cash flows AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 year AED'000
Non-derivative financial liabilities					
Due to banks	199	(199)	(199)	-	-
Deposits from customers	12,635,484	(12,959,439)	(6,170,965)	(6,751,647)	(36,827)
Liabilities for acceptances	350,945	(350,945)	(191,617)	(122,757)	(36,572)
Other liabilities	292,255	(292,255)	(137,686)	(113,676)	(40,892)
Total liabilities	**13,278,883**	**(13,602,838)**	**(6,500,467)**	**(6,988,081)**	**(114,290)**
2017					
Non-derivative financial liabilities					
Due to banks	2,827	(2,827)	(2,827)	-	-
Deposits from customers	13,594,128	(13,916,309)	(6,061,870)	(7,236,111)	(618,327)
Liabilities for acceptances	556,856	(556,856)	(391,228)	(83,188)	(82,440)
Other liabilities	255,510	(255,510)	(156,060)	(54,422)	(45,025)
Total liabilities	**14,409,321**	**(14,731,502)**	**(6,611,985)**	**(7,373,721)**	**(745,792)**

d) Market Risk

Market Risk is the risk that changes in market prices - such as interest rates, equity prices and foreign exchange rates will affect the Group's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios mainly include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Group has a very limited trading portfolio, hence it is not exposed to any significant market risk in respect of its trading portfolio.

27 Risk management (continued)

d) Market Risk (continued)

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

Assets and liabilities repricing profile

	Effective interest rate %	Less than 3 months AED'000	3 months to 1 year AED'000	more than 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and deposits with central banks	1.69	1,100,000	-	-	868,369	1,968,369
Due from banks	1.45	605,967	-	-	127,493	733,460
Investment securities	4.86	-	7,346	7,299	141,302	155,947
Loans and advances to customers	6.64	7,134,396	2,617,082	107,832	216,064	10,075,374
Customers' indebtedness for acceptances		-	-	-	350,945	350,945
Other assets		-	-	-	741,973	741,973
Total assets		**8,840,363**	**2,624,428**	**115,131**	**2,446,146**	**14,026,068**
Liabilities						
Due to banks		-	-	-	199	199
Deposits from customers	2.57	2,610,433	6,246,351	199,482	3,579,218	12,635,484
Liabilities under acceptances		-	-	-	350,945	350,945
Other liabilities		-	-	-	292,255	292,255
Total liabilities		**2,610,433**	**6,246,351**	**199,482**	**4,222,617**	**13,278,883**
Interest rate sensitivity gap		**6,229,930**	**(3,621,923)**	**(84,351)**	**(1,776,471)**	**747,185**
Cumulative interest rate sensitivity gap:						
As of 31 December 2018		**6,229,930**	**2,608,007**	**2,523,656**		
As of 31 December 2017						
Total assets		7,016,973	5,231,709	-	4,700,543	16,949,225
Total liabilities		2,974,693	6,985,871	548,906	3,899,848	14,409,318
Interest rate sensitivity gap		4,042,280	(1,754,162)	(548,906)	800,695	2,539,907
Cumulative interest rate sensitivity gap:		4,042,280	2,288,118	1,739,212		

27 Risk management (continued)

d) **Market Risk** (continued)

The assets and liabilities re-pricing profile has been determined on the basis of the final maturity period or interest re-pricing periods at the reporting date, whichever is earlier. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Sensitivity analysis - Interest rate risk

Interest rate risk is the sensitivity of asset and liability values to changes in the term structure of interest rates or interest rate volatility. Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and related income. The Group manages the risk principally through monitoring interest rate gaps and matching the re-pricing profile of assets and liabilities. The Group also assesses the impact of defined movement in interest yield curves on its net interest income. The following is the impact of interest rate movement on net interest income and regulatory capital.

Shift in yield curve	**2018**	2017
	AED '000	AED '000
$\pm$200 b.p.	**67,613**	49,830

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. The sensitivity does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

Equity price risk

The primary goal of the Group's investment strategy is to maximise investment returns. Most of the Group's equity investments are listed either on the Dubai Financial Market or the Abu Dhabi Securities Exchange. For investments classified as fair value through other comprehensive income, a 5% increase at the reporting date would have increased equity by AED 6.66 million (31 December 2017: AED 6.79 million) and an equal change in the opposite direction would have decreased equity by a similar amount. For investments classified as fair value through profit or loss, the impact on the loss would have been an increase or decrease of AED 0.4 million (31 December 2017: AED 0.5 million).

Foreign currency risk

The Group engages in limited trading in foreign exchange on its own account. Its treasury activities are mainly directed to assisting its customers in managing their foreign exchange exposures. A system of exposure limits is in place to control price risk on foreign exchange exposures and a system of individual credit limits is in place to control counter-party risk. The amounts mentioned in the table below reflect the equal but opposite potential effect on profit and equity based on a 1% negative or positive currency fluctuation, with all other variables held constant. At the reporting date, the Group has following net open currency exposures in respect of:

		2018			2017	
	Total	**Impact on profit**	**Impact on equity**	Total	Impact on profit	Impact on equity
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
United States Dollar	**270,187**	**2,702**	**2,702**	543,236	5,432	5,432
British Pound	**1,205**	**12**	**12**	251	3	3
Euro	**(760)**	**(8)**	**(8)**	218	2	2

27 Risk management (continued)

e) Operational risk

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

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements.

The Group has taken measures to put tools in place, to identify all such operational risks. The Group has also taken measures to implement processes and policies to mitigate the risk to an acceptable level and to avoid or minimise financial losses and damage to Group's reputation.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are shared with Audit Committee and senior management of the Group. The compliance with policies and procedures is strengthened by Internal Audit reviews, while Compliance of regulatory requirements is strengthened by Compliance department.

f) Capital risk management and Basel II requirements

Capital allocation

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

The Group's objectives when managing capital are as follows:

- Safeguarding the Group's ability to continue as a going concern and increase return for the shareholders; and
- Comply with regulatory capital requirement set by Central Bank of the UAE.

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 capital on shareholders' return 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 also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its integrated ICAAP Framework. Risks such as interest rate risk in the banking book, concentration risk, strategic risk, legal and compliance risk, stress risk, insurance risk and reputational risk are all part of the ICAAP.

The Group has determined its regulatory capital as recommended by the Basel II Capital Accord, in line with the guidelines of CB UAE with effect from 2007. There have been no material changes in the Group's management of capital during the year. The CB UAE has advised that the minimum capital adequacy ratio should be 12.38% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8.5%. In addition to the above, Capital Conservation Buffer (CCB) of 1.875% has to be maintained for 31 December 2018. Collective impairment provision eligible for inclusion in Tier 2 capital shall not exceed 1.25% of credit risk weighted assets.

The capital adequacy ratio (CAR) as computed in accordance with the above guidelines at 6.23% is below the regulatory threshold for 31 December 2018 of 12.38%.

27 Risk management (continued)

The Group's regulatory capital position at 31 December was as follows:

	2018 AED '000	2017 AED '000
TIER 1 CAPITAL		
Share capital	**1,588,125**	1,588,125
Legal reserve	**450,688**	450,688
Special reserve	**450,688**	450,688
Fair value reserve	**(117,015)**	(97,213)
Retained earnings	**(1,625,301)**	147,619
Total tier 1 capital	**747,185**	**2,539,907**
TIER 2 CAPITAL		
General provisions	**165,657**	197,683
Total tier 2 capital	**165,657**	**197,683**
Total regulatory capital	**912,842**	**2,737,590**
RISK WEIGHTED ASSETS		
Credit risk	**13,252,552**	15,738,632
Market risk	**54,740**	55,491
Operational risk	**1,348,694**	1,394,469
Total risk weighted assets (RWA)	**14,655,986**	**17,188,592**
Total regulatory capital expressed as % of RWA	**6.23%**	15.93%
Total tier 1 capital expressed as % of RWA	**5.10%**	14.78%

Had the Strategic investment as discussed in note 2, "Recapitaization" been approved before year end, Capital Adequacy Ratio ("CAR") computation would have been as follows, subject to any reduction in the CAR arising from any additional regulatory provisions to be agreed upon by the Bank and CBUAE (Note2)

	2018 AED '000
Tier 1 capital	**1,862,185**
Tier 2 capital	**165,657**
Total regulatory capital	**2,027,842**
Total risk weighted assets	**14,655,986**
Total regulatory capital expressed as % of RWA (CAR)	**13.84%**
Total tier 1 capital expressed as % of RWA (CAR - Tier 1)	**12.71%**

Total capital requirement for market risk under standardised approach as per BASEL II Pillar 3 is as follows:

	2018 - AED '000		2017 - AED '000	
	Capital required	Risk weighted assets	Capital required	Risk weighted assets
Interest rate risk	-	-	-	-
Equity position risk	**2,324**	**29,056**	1,067	10,162
Foreign exchange risk	**2,055**	**25,684**	4,760	45,329
Total capital requirement	**4,379**	**54,740**	**5,827**	**55,491**

28 Social contributions

Social contributions made during the year amount to AED 30,000 (2017: AED 78,000).

29 Comparative figures

Certain comparative figures have been reclassified where necessary to conform to current year's presentation.