

Ajman Bank PJSC

**Review report and
interim financial information
for the nine month period ended
30 September 2018**

Ajman Bank PJSC

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**The Board of Directors
Ajman Bank PJSC
Ajman
United Arab Emirates**

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of **Ajman Bank PJSC** (the “Bank”) and its subsidiaries (collectively referred as the “Group”), as at 30 September 2018, and the related condensed consolidated income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the nine month period then ended. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34: *Interim Financial Reporting* (“IAS 34”). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410: “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects in accordance with IAS 34.

Deloitte & Touche (M.E.)

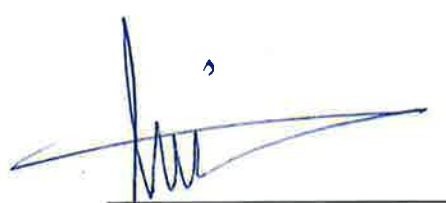


Akbar Ahmad
Registration No. 1141
Dubai
United Arab Emirates
31 October 2018

**Condensed consolidated statement of financial position
As at 30 September 2018**

	Notes	30 September 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
ASSETS			
Cash and balances with the Central Bank	8	1,512,221	1,378,410
Due from banks and other financial institutions		619,481	601,504
Islamic financing and investing assets, net	9	16,046,684	15,158,872
Investment securities at fair value	10	1,863,585	1,912,254
Investment properties	12	611,359	580,448
Property and equipment		149,774	136,244
Other assets	11	262,522	259,922
Total assets		21,065,626	20,027,654
LIABILITIES AND EQUITY			
Liabilities			
Islamic customers' deposits	13	15,270,213	14,323,879
Due to banks and other financial institutions		3,592,704	3,362,702
Other liabilities	14	211,790	230,615
Total liabilities		19,074,707	17,917,196
Equity			
Share capital	15	1,680,323	1,680,323
Statutory reserve		227,725	227,725
Investment fair value reserve		(52,772)	(65,206)
Retained earnings		135,643	267,616
Total equity		1,990,919	2,110,458
Total liabilities and equity		21,065,626	20,027,654


H.E. Sheikh Ammar Bin Humaid Al Nuaimi
Chairman


Mohamed Abdulrahman Amiri
Chief Executive Officer

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

**Condensed consolidated income statement (unaudited)
for the nine month period ended 30 September 2018**

	Notes	Three month period ended 30 September		Nine month period ended 30 September	
		2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Operating income					
Income from Islamic financing and investing assets	16	196,642	174,813	594,983	495,174
Income from investment securities		21,911	21,940	57,019	63,528
Fees, commissions and other income		26,748	34,735	86,639	96,752
Total operating income before depositors' share of profit		245,301	231,488	738,641	655,454
Depositors' share of profit		(124,691)	(92,714)	(348,032)	(255,030)
Net operating income		120,610	138,774	390,609	400,424
Expenses					
Staff costs		(49,719)	(40,495)	(149,267)	(129,009)
General and administrative expenses		(16,959)	(13,392)	(46,709)	(39,712)
Impairment charge for financial assets	7	(9,051)	(41,796)	(62,569)	(124,280)
Depreciation of property and equipment		(4,063)	(3,908)	(12,245)	(12,970)
Total expenses		(79,792)	(99,591)	(270,790)	(305,971)
Profit for the period		40,818	39,183	119,819	94,453
Earnings per share	17	0.024	0.023	0.070	0.055

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

**Condensed consolidated statement of profit or loss
and other comprehensive income (unaudited)
for the nine month period ended 30 September 2018**

	Three month period ended 30 September		Nine month period ended 30 September	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Profit for the period	40,818	39,183	119,819	94,453
Other comprehensive income/(loss): <i>Items that may be reclassified subsequently to profit or loss</i>				
Fair value gain/(loss) on investments securities at FVTOCI	26,264	3,982	(34,697)	8,273
Reclassification adjustments relating to investments securities at FVTOCI	2,457	(576)	4,171	(7,220)
Other comprehensive income/(loss)	28,721	3,406	(30,526)	1,053
Total comprehensive income for the period	69,539	42,589	89,293	95,506

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

**Condensed consolidated statement of changes in equity
for the nine month period ended 30 September 2018**

	Share capital AED'000	Statutory reserve AED'000	Investment fair value reserve AED'000	Retained earnings AED'000	Total AED'000
As at 1 January 2017 (audited)	1,623,500	214,464	(34,119)	207,586	2,011,431
Profit for the period	-	-	-	94,453	94,453
Other comprehensive income	-	-	1,053	-	1,053
Total comprehensive income for the period	-	-	1,053	94,453	95,506
Stock dividends (Note 15)	56,823	-	-	(56,823)	-
Directors' remuneration (Note 15)	-	-	-	(2,500)	(2,500)
As at 30 September 2017 (unaudited)	1,680,323	214,464	(33,066)	242,716	2,104,437
At 1 January 2018 (audited)	1,680,323	227,725	(65,206)	267,616	2,110,458
Impact of adopting IFRS 9 at 1 January 2018	-	-	42,960	(190,481)	(147,521)
Restated balance at 1 January 2018	1,680,323	227,725	(22,246)	77,135	1,962,937
Profit for the period	-	-	-	119,819	119,819
Other comprehensive loss	-	-	(30,526)	-	(30,526)
Total comprehensive income for the period	-	-	(30,526)	119,819	89,293
Dividends (Note 15)	-	-	-	(58,811)	(58,811)
Directors' remuneration (Note 15)	-	-	-	(2,500)	(2,500)
As at 30 September 2018 (unaudited)	1,680,323	227,725	(52,772)	135,643	1,990,919

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

**Condensed consolidated statement of cash flows (unaudited)
for the nine month period ended 30 September 2018**

	Nine month period ended 30 September	
	2018 AED'000	2017 AED'000
Cash flows from operating activities		
Profit for the period	119,819	94,453
<i>Adjustments for:</i>		
Depreciation of property and equipment	12,245	12,970
Impairment charge on Islamic financing, investing assets and other receivables	62,569	124,280
Income from investment securities	(61,276)	(56,308)
Impairment of property and equipment	545	-
Fair value adjustment of investment property	-	(5,635)
Realised loss/(gain) on disposal of investment securities	4,257	(7,220)
Gain on disposal of property and equipment	(25)	-
Operating cash flows before changes in operating assets and liabilities	138,134	162,540
<i>Changes in operating assets and liabilities</i>		
Increase in Islamic financing and investing assets	(1,072,515)	(2,515,568)
(Increase)/decrease in due from banks and other financial institutions	(19,772)	91,752
Increase in statutory deposit with the Central Bank	(63,321)	(109,792)
(Increase)/decrease in other assets	(3,181)	93,184
Increase in Islamic customers' deposits	946,334	2,736,134
Increase in due to banks and other financial institutions	230,002	232,028
Decrease in other liabilities	(18,825)	(172,999)
Payment of directors remuneration	(2,500)	(2,500)
Net cash generated from operating activities	134,356	514,779
Cash flows from investing activities		
Purchase of investment securities	(339,124)	(2,831,851)
Proceeds from sale of investment securities	323,393	2,560,321
Purchase of property and equipment	(26,371)	(8,905)
Proceeds from disposal of property and equipment	76	-
Profit income on investment securities	66,087	56,308
Additions to investment property	(30,911)	(229,868)
Net cash used in investing activities	(6,850)	(453,995)
Cash flows from financing activities		
Dividends paid	(58,811)	-
Net cash used in financing activities	(58,811)	-
Net increase in cash and cash equivalents	68,695	60,784
Cash and cash equivalents at the beginning of the period	971,758	948,329
Cash and cash equivalents at the end of the period (Note 8)	1,040,453	1,009,113

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

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018****1. Legal status and activities**

Ajman Bank PJSC and its subsidiaries (the “Bank” or the “Group”) was incorporated as a Public Joint Stock Company. The Bank and its subsidiaries are collectively referred to as the “Group”. The registered address of the Bank is P.O. Box 7770, Ajman, United Arab Emirates (“UAE”). The Bank was legally incorporated on 17 April 2008 and was registered with the Securities and Commodities Authority (“SCA”) on 12 June 2008 and obtained a license from the Central Bank of the UAE to operate as a Head Office on 14 June 2008. On 1 December 2008, the Bank obtained a branch banking license from UAE Central Bank and commenced its operations on 22 December 2008.

In addition to its main office in Ajman, the Bank operates through eight branches and one pay office in the UAE. The condensed consolidated financial statements combine the activities of the Bank’s head office and its branches.

The principal activities of the Bank are to undertake banking, financing and investing activities through various Islamic financing and investment products such as Murabaha, Mudarba, Musharika, Wakala, Sukuk and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Sharia’a principles and within the provisions of its Memorandum and Articles of Association.

2. Application of new and revised International Financial Reporting Standards (“IFRS”)***2.1 New and revised IFRS applied with material effect on the condensed consolidated financial statements***

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 amounts previously recognized in the condensed consolidated financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures. Any adjustments to carrying amount of financial assets and liabilities at the date of transitions were recognized in opening retained earnings and other reserves of the current period. The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) on adoption of IFRS 9.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and liabilities and 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 the disclosures relating to the impact of IFRS 9 on the Group. Further details of the specific IFRS 9 policies applied in the current period are described in more details in Note 3.3.

The following table reconciles the original measurement categories and carrying amounts in accordance with IAS 39 and the new measurement categories with those under IFRS 9 for the Group’s financial assets as at 1 January 2018:

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

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

2.1 New and revised IFRS applied with material effect on the condensed consolidated financial statements (continued)

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount AED'000	Re-measure- ment AED'000	Impact of IFRS 9 Re-classifica- tion AED'000	New carrying amount AED'000
Financial assets						
Cash and balances with the Central Bank	Loans and receivables	Amortised cost	1,378,410	-	-	1,378,410
Due from banks and other financial institutions	Loans and receivables	Amortised cost	601,504	-	-	601,504
Islamic financing and investing assets, net	Loans and receivables	Amortised cost	15,158,872	(122,629)	-	15,036,243
Investment securities at fair value	Available-for-sale	FVTOCI	1,720,994	(24,892)	-	1,696,102
Investment securities at fair value	Available-for-sale	FVTPL	191,260	-	-	191,260
Foreign currency forward contracts	FVTPL	FVTPL	2,218	-	-	2,218
Other financial assets	Loans and receivables	Amortised cost	144,474	-	-	144,474
			19,197,732	(147,521)	-	19,050,211

There were no changes to the classification and measurement of financial liabilities.

	Retained earnings AED'000	Investment fair value reserve AED'000
Closing balance under IAS 39 (31 December 2017)	267,616	(65,206)
<i>Impact on reclassification and remeasurements:</i>		
Investment securities (equity) from available-for-sale to those measured at FVTPL	(16,920)	16,920
	(16,920)	16,920
<i>Impact on recognition of Expected Credit Losses</i>		
Islamic financing and investing assets	(122,629)	-
Investment securities at FVTOCI	(50,932)	26,040
	(173,561)	26,040
Opening balance under IFRS 9 on date of initial application of 1 January 2018	77,135	(22,246)

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

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

2.1 New and revised IFRS applied with material effect on the condensed consolidated financial statements (continued)

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening Expected Credit Losses (ECLs) allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017 AED’000	Re- measurement AED’000	1 January 2018 AED’000
Islamic financing and investing assets	547,616	122,629	670,245
Investment securities at fair value through OCI	-	50,932	50,932
Other financial assets	2,985	-	2,985
	<u>550,601</u>	<u>173,561</u>	<u>724,162</u>

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

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these condensed consolidated financial statements. The application of these revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Associates and Joint Ventures (2011)*.
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration*
The interpretation addresses foreign currency transactions or parts of transactions where:
 - there is consideration that is denominated or priced in a foreign currency;
 - the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
 - the prepayment asset or deferred income liability is non-monetary.
- Amendments to IFRS 2 *Share-based Payment* regarding classification and measurement of share based payment transactions.
- Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contracts standard.
- Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

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

2.2 New and revised IFRS applied with no material effect on the condensed consolidated financial statements (continued)

• **IFRS 15 Revenue from Contracts with Customers**

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

- Amendments to IFRS 15 *Revenue from Contracts with Customers* to clarify six aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

2.3 New and revised IFRS in issue but not yet effective

New and revised IFRS	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3 <i>Business Combinations</i> , IFRS 11 <i>Joint Arrangements</i> , IAS 12 <i>Income Taxes</i> and IAS 23 <i>Borrowing Costs</i> .	1 January 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

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

2.3 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRS	Effective for annual periods beginning on or after
IFRS 16 <i>Leases</i>	1 January 2019
IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	
Amendments to IFRS 9 <i>Financial Instruments</i> : Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
Amendments to IAS 28 <i>Investment in Associates and Joint Ventures</i> : Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 <i>Financial Instruments</i> to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019
IFRS 17 <i>Insurance Contracts</i>	1 January 2021
IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.	
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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

Notes to the condensed consolidated financial statements for the nine months period ended 30 September 2018 (continued)

3. Summary of significant accounting policies

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated 12 October 2008, certain required accounting policies have been disclosed in the condensed consolidated financial statements.

3.1 *Basis of preparation*

The condensed consolidated financial statements of the Group are prepared under the historical cost basis except for certain financial instruments and investment properties which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34"), issued by the International Accounting Standard Board (IASB) and also comply with the applicable requirements of the laws in the U.A.E.

The accounting policies used in the preparation of these condensed consolidated financial statements are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2017, except for changes in accounting policies explained in Note 2 and Note 3.3.

These condensed consolidated financial statements do not include all the information and disclosure required in full consolidated financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2017. In addition, results for the period from 1 January 2018 to 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

3.2 *Basis of consolidation*

These condensed consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved where the Bank has the power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

The condensed consolidated financial statements comprise the financial statements of the Bank and of the subsidiaries as disclosed in Note 1 to these condensed consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

All significant inter-group balances, income and expense items are eliminated on consolidation.

3.3 *Significant accounting policies introduced on adoption of IFRS 9*

Business model assessment

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

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

3. Summary of significant accounting policies (continued)

3.3 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Business model assessment (continued)

The information considered includes:

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

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

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- (i) Financing instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and profit on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- (ii) Financing instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);
- (iii) all other financing instruments (e.g. instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

3. Summary of significant accounting policies (continued)

3.3 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Financial assets (continued)

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and
- the Group may irrevocably designate a financing instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

(a) Financing instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and profit on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are payments of principal). Profit consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs, as well as a margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic financing arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models.

When a financing instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Financing instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

3. Summary of significant accounting policies (continued)

3.3 Significant accounting policies introduced on adoption of IFRS 9 (continued)

(b) Financial assets at FVTPL

Financial assets at FVTPL are:

- (i) assets with contractual cash flows that are not SPPI; or/and
- (ii) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- (iii) assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Fair value option

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing related gains and losses on a different basis (an “accounting mismatch”). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category while they are held or issued. Financial assets designated as FVTPL are recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in investment income.

(a) Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group’s financial assets. During the current period and previous accounting period, there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

(b) Impairment

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Due from banks and other financial institutions
- Investment securities at FVTOCI
- Islamic financing and investing assets
- Off balance sheet exposures subject to credit risk

No impairment loss is recognised on equity investments.

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

3. Summary of significant accounting policies (continued)

3.3 Significant accounting policies introduced on adoption of IFRS 9 (continued)

(d) Impairment (continued)

With the exception of purchased or originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EPR.

- for undrawn financial commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the finance and the cash flows that the Group expects to receive if the finance is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed financing instrument less any amounts that the Group expects to receive from the holder, the customer or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of finances that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EPR, regardless of whether it is measured on an individual basis or a collective basis.

(e) Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or past due event;
- the financier of the customer, for economic or contractual reasons relating to the customer's financial difficulty, having granted to the customer a concession that the financier would not otherwise consider;
- the financier of the customer has downgraded the ratings because of deterioration in financial condition of the customer; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

3. Summary of significant accounting policies (continued)

3.3 Significant accounting policies introduced on adoption of IFRS 9 (continued)

(e) Credit-impaired financial assets (continued)

It may not be possible to identify a single discrete event-instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether financing instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate financing instruments are credit impaired, the Group considers factors such as delinquency, watchlist indication, restructuring flag, deterioration in credit ratings and the ability of the customer to raise funding.

A financial asset is considered credit-impaired when a concession is granted to the customer due to a deterioration in the customer's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more. However, the cases where the impairment is not recognised for assets beyond 90 days overdue are supported by reasonable information.

(f) Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

(g) Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the customer is past due more than 90 days on any material credit obligation to the Group; or
- the customer is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Further, the cases where the criteria of 90 days overdue are rebutted using reasonable information. When assessing if the customer is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate financing a qualitative indicator used is the 'watch list flag', which is not used for retail financing. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

Notes to the condensed consolidated financial statements for the nine months period ended 30 September 2018 (continued)

3. Summary of significant accounting policies (continued)

3.3 Significant accounting policies introduced on adoption of IFRS 9 (continued)

(h) Significant increase in credit risk

The Group monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL. The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Group monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate financing, forward-looking information includes the future prospects of the macroeconomic indicators like Crude Oil price, obtained from regulatory guidelines, economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, financing forward looking information includes the same economic forecasts as corporate financing with additional forecasts of local economic indicators.

The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The Group considers the credit risk upon initial recognition of asset and whether there has been a significant increase in it on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customers in the group and changes in the operating results of the customer; and
- Macroeconomic information: in its models, the Group relies on a broad range of forward looking information as economic inputs, such as: average oil prices, real estate Dubai and Abu Dhabi, inflation, ECI, hotel room occupancy etc. along with various transformations of the same. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

3. Summary of significant accounting policies (continued)

3.3 Significant accounting policies introduced on adoption of IFRS 9 (continued)

(h) Significant increase in credit risk (continued)

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis.

However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate financing there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

For retail financing, when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

(i) Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing finance would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the profit rate that arises when covenants are breached).

The Group renegotiates finances to customers in financial difficulty to maximise collection and minimise the risk of default. A finance forbearance is granted in cases where although the customer made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the customer is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the finance, changes to the timing of the cash flows of the finance (principal and profit payment), reduction in the amount of cash flows due (principal and profit forgiveness) and amendments to covenants. The Group has an established forbearance policy which applies for corporate and retail financing.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms.

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

3. Summary of significant accounting policies (continued)

3.3 Significant accounting policies introduced on adoption of IFRS 9 (continued)

(i) Modification and derecognition of financial assets (continued)

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new finance is considered to be originated credit impaired. This applies only in the case where the fair value of the new finance is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the customer is in past due status under the new terms.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised financing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

(j) Write-offs

Financial assets are written off when there is no reasonable expectation of recovery, such as a customer failing to engage in a payment plan with the company. The company categorises a finance or receivable for write off after almost all possible avenues of payments have been exhausted. However where finances or receivables have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

3. Summary of significant accounting policies (continued)

Financial liabilities

(a) Classification and subsequent measurement

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

- Financial liabilities at fair value through profit or loss: the classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in 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 or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and
- Financial guarantee contracts and loan commitments.

(b) 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 financier of financing instruments with substantially different terms, as well as substantial modifications of the terms of existing liabilities, are accounted for as an extinguishment of the original financial liability and a 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 profit 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, currency that the instrument is denominated in, changes in the type of profit rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of financing instruments or modification of terms is accounted for as an extinguishment, any cost or fees incurred are recognised as part of the gain or loss on extinguishment. If an exchange or modification is not accounted for as an extinguishment, any cost or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)****3. Summary of significant accounting policies (continued)****3.3 Significant accounting policies introduced on adoption of IFRS 9 (continued)****Financial liabilities (continued)****Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified customer fails to make payments when due in accordance with the terms of a financing instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the condensed consolidated statement of financial position and the remeasurement is presented in other revenue.

The Group has not designated any financial guarantee contracts as at FVTPL.

Islamic derivative financial instruments

Islamic derivative financial instruments are primarily used in trading activities. These are also used to manage our exposure to profit, currency, credit and other market risks. All Islamic derivative financial instruments are recorded in condensed consolidated statement of financial position at fair value.

When Islamic derivative financial instruments are used in trading activities, the realized and unrealized gains and losses on these Islamic derivative financial instruments are recognized in other income. Islamic derivative financial instruments with positive fair values are presented as asset and Islamic derivative financial instruments with negative fair values are reported as liabilities. In accordance with our policy for offsetting financial assets and financial liabilities, the net fair value of certain derivative assets and liabilities are reported as an asset or liability, as appropriate. Valuation adjustments are included in the fair value of Derivative assets and Derivative liabilities. Premiums paid and premiums received are part of Derivative assets and Derivative liabilities, respectively. When derivatives are used to manage our own exposures, we determine for each derivative whether hedge accounting can be applied.

3.4 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the condensed consolidated financial statements for the year ended 31 December 2017.

3.5 Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated statement of profit or loss for the nine month period ended 30 September 2018 and 30 September 2017.

Notes to the condensed consolidated financial statements for the nine months period ended 30 September 2018 (continued)

3. Summary of significant accounting policies (continued)

3.6 Investment property

Investment property is held to earn rental income and/or capital appreciation. Investment property includes cost of initial purchase, developments transferred from property under development, subsequent cost of development and fair value adjustments. Investment property is reflected at fair value at the condensed consolidated statement of financial position date. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the condensed consolidated statement of profit or loss in the period in which these gains or losses arise.

4. Measurement of ECL

The Group employs statistical models for ECL calculations. For measuring ECL under IFRS 9, the key input would be the term structure of the following variables:

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

These parameters will be derived from our internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information as described below:

PD estimates for the Corporate Portfolio, are estimates at a certain date, which are calculated based on statistical rating models currently used by the Group, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to change in estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. Whereas, the Retail PD models are based of the pools created on the basis of risk homogeneity, or Stage Classification in this case.

LGD is the magnitude of the likely loss if there is a default. The Group has estimated LGDs for the corporate portfolio based on the FIRB approach while adjusting the EAD with the available collateral as per the latest valuation date due to unavailability of internal recovery data for the defaulted accounts in a readily usable format.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and the potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD is arrived at using the regulatory CCFs.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- risk grading;
- IFRS 9 stage classification;

The groupings are subject to regular review to ensure that exposure within a particular group remain appropriately homogenous.

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)****4. Measurement of ECL (continued)***Expected life*

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life. An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a finance and undrawn commitment component; (b) we have the contractual ability to demand payment and cancel the undrawn commitment; and (c) our exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle. Products in scope of this exemption include credit cards, overdraft balances and certain revolving lines of credit. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment. The group has also undertaken the prepayment analysis on the Personal Finance portfolio in order to determine the actual behavioral maturity of the portfolio.

5. Critical accounting judgments and key sources of estimation of uncertainty

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

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

5.1 Critical judgments in applying the Group's accounting policies

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in condensed consolidated financial statements:

- **Business model assessment:** Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Notes to the condensed consolidated financial statements for the nine months period ended 30 September 2018 (continued)

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

5.1 Critical judgments in applying the Group's accounting policies (continued)

- Significant increase of credit risk: As explained in Note 4, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.
- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. instrument type, credit risk, stage classification etc.). The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.
- Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.
- Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

5.2 Key sources of estimation uncertainty

The following are key estimations that the management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the condensed consolidated financial statements:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

6. Classes and categories of financial instruments

The tables below sets out the Group's classification of each class of financial assets and liabilities:

	At fair value AED'000	Amortised cost AED'000	Total AED'000
At 30 September 2018 (unaudited)			
Financial assets			
Cash and balances with the Central Bank	-	1,512,221	1,512,221
Due from banks and other financial institutions	-	619,481	619,481
Islamic financing and investing assets, net	-	16,046,684	16,046,684
Investment securities at fair value	1,863,585	-	1,863,585
Other assets	-	156,705	156,705
Total	1,863,585	18,335,091	20,198,676
Financial liabilities			
Islamic customers' deposits	-	15,270,213	15,270,213
Due to banks and other financial institutions	-	3,592,704	3,592,704
Other liabilities	-	139,500	139,500
Total	-	19,002,417	19,002,417
At 31 December 2017 (Audited)			
Financial assets:			
Cash and balances with the Central Bank	-	1,378,410	1,378,410
Due from banks and other financial institutions	-	601,504	601,504
Islamic financing and investing assets	-	15,158,872	15,158,872
Investment securities at fair value	1,912,254	-	1,912,254
Other assets	-	146,692	146,692
Total	1,912,254	17,285,478	19,197,732
Financial liabilities:			
Islamic customers' deposits	-	14,323,879	14,323,879
Due to banks and other financial institutions	-	3,362,702	3,362,702
Other liabilities	-	164,944	164,944
Total	-	17,851,525	17,851,525

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

7. Impairment allowance

7.1 The movement in impairment allowance by financial asset category is as follows:

	Opening balance restated AED'000	Net charge during the period AED'000	Other movement during the period AED'000	Closing balance AED'000
Islamic financing and investing assets (Note 9)	670,245	62,074	(2,852)	729,467
Investment securities at FVTOCI*	50,932	(86)	-	50,846
Other financial assets	2,985	581	-	3,566
Total	724,162	62,569	(2,852)	783,879

(*) Impairment allowance is recognised under "Revaluation reserve of investments designated at FVTOCI".

7.2 Allocation of impairment allowance as of 30 September 2018 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Islamic financing and investing assets	74,532	172,642	482,293	729,467
Investment securities at FVTOCI	768	-	50,078	50,846
Other financial assets	-	-	3,566	3,566
Total	75,300	172,642	535,937	783,879

8. Cash and balances with the Central Bank

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Cash on hand	74,301	84,628
Balances with the Central Bank:		
Current accounts	180,546	104,729
Reserve requirements with the Central Bank	607,374	544,053
International murabahat with the Central Bank	650,000	645,000
Total	1,512,221	1,378,410

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

8. Cash and balances with the Central Bank (continued)

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

	30 September 2018 AED'000 (unaudited)	30 September 2017 AED'000 (unaudited)
Cash and balances with the Central Bank	1,512,221	1,379,808
Due from banks and other financial institutions (original maturity less than three months)	135,606	141,502
	<u>1,647,827</u>	<u>1,521,310</u>
Less: Statutory reserve with the Central Bank	(607,374)	(512,197)
Cash and cash equivalents	<u><u>1,040,453</u></u>	<u><u>1,009,113</u></u>

The statutory reserve with the Central Bank is not available to finance the day-to-day operations of the Group. However, as per notice 4310/2008, the Central Bank has allowed banks to utilize up to 100% of their AED and US\$ reserve requirement limit.

9. Islamic financing and investing assets, net

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Islamic financing assets		
Vehicles murabahat	165,629	201,979
Commodities murabahat	6,756,141	6,186,260
Total murabahat	<u>6,921,770</u>	<u>6,388,239</u>
Ijarahs	9,057,783	8,375,151
Istisna'a	36,171	37,741
Islamic credit cards	39,547	38,762
	<u>16,055,271</u>	<u>14,839,893</u>
Deferred income	(1,056,634)	(968,537)
Total Islamic financing assets	<u><u>14,998,637</u></u>	<u><u>13,871,356</u></u>

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

9. Islamic financing and investing assets, net (continued)

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Islamic investing assets		
Mudaraba	994,743	1,092,562
Wakalat	782,771	742,570
Total Islamic investing assets	<u>1,777,514</u>	<u>1,835,132</u>
Total Islamic financing and investing assets	16,776,151	15,706,488
Provisions for impairment (Note 7.1)	(729,467)	(547,616)
Total Islamic financing and investing assets, net	<u><u>16,046,684</u></u>	<u><u>15,158,872</u></u>

10. Investment securities at fair value

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Investment securities measured at FVTPL	193,600	-
Investment securities measured at FVTOCI	1,669,985	1,912,254
	<u><u>1,863,585</u></u>	<u><u>1,912,254</u></u>

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

10. Investment securities at fair value (continued)

Fair value hierarchy

The financial and non-financial assets measured at fair value are set out below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<i>Financial assets</i>				
At FVTPL				
At 30 September 2018 (unaudited)	93,600		100,000	193,600
At 31 December 2017 (audited)	-	-	-	-
At FVTOCI				
At 30 September 2018 (unaudited)	1,635,557	-	34,428	1,669,985
At 31 December 2017 (audited)	1,752,934	-	159,320	1,912,254
Foreign currency forward contracts				
At 30 September 2018 (unaudited)	-	-	-	-
At 31 December 2017 (audited)	2,218	-	-	2,218
<i>Non-financial assets</i>				
Investment properties				
At 30 September 2018 (unaudited)	-	-	611,359	611,359
At 31 December 2017 (audited)	-	-	580,448	580,448

There were no transfers between financial instruments classified within level 1, level 2, and level 3 of fair value hierarchy during the current or prior period/year.

11. Other assets

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Accrued income on Islamic financing and investing assets	86,227	74,937
Assets acquired in settlement of Islamic financing and investing assets	34,597	29,804
Acceptances (Note 14)	10,790	17,319
Prepaid expenses	22,047	28,168
Accrued income on investment securities	21,384	22,376
Staff advances (Soft finance)	13,317	13,598
Foreign currency forward contracts	-	2,218
Other	74,160	71,502
	262,522	259,922

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

12. Investment properties

Movement in investment properties is as follows:

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
At beginning of the period/year	580,448	322,398
Additions during the period/year	30,911	252,415
Increase in fair value during the period/ year	-	5,635
	<hr/>	<hr/>
Balance at the end of the period/year	611,359	580,448
	<hr/> <hr/>	<hr/> <hr/>

All of the Group's investment properties are held under free hold interest and located in the U.A.E. The fair value of the Group's investment properties as at 30 September 2018 is AED 611 million (31 December 2017: AED 580 million). The fair value is mainly based on unobservable market inputs (i.e. Level 3).

13. Islamic customers' deposits

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Current accounts	2,908,657	2,592,979
<i>Mudarba deposits:</i>		
Savings accounts	204,018	207,703
Term deposits	49,713	68,184
	<hr/>	<hr/>
	3,162,388	2,868,866
Wakala deposits	11,920,104	11,249,371
Escrow accounts	118,628	93,933
Margin accounts	69,093	111,709
	<hr/>	<hr/>
	15,270,213	14,323,879
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

14. Other liabilities

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Accrued profit on Islamic customers' deposits and placements by banks	120,809	117,733
Managers' cheques	14,994	45,312
Provisions for staff salaries and benefits	27,814	16,550
Acceptances (Note 11)	10,790	17,319
Other	37,383	33,701
	<u>211,790</u>	<u>230,615</u>

15. Share capital

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
<i>Issued and fully paid:</i>		
1,680,322,500 (31 December 2017: 1,680,322,500) shares of AED 1 each	1,680,323	1,680,323
	<u>=====</u>	<u>=====</u>

At the Annual General Meeting of the shareholders held on 21 March 2018, the shareholders approved cash dividend in respect of the year ended 31 December 2017 at 3.5% (31 December 2016: 3.5% stock dividend) of the share capital amounting to AED 58.8 million (31 December 2017: 56.8 million). Further AED 2.5 million as Directors' remuneration was also approved.

16. Income from Islamic financing and investing assets

	Nine month period ended 30 September	
	2018 AED'000 (unaudited)	2017 AED'000 (unaudited)
Income from Ijarah	290,870	242,088
Income from Murabaha	248,114	195,776
Income from Mudaraba	27,531	29,822
Income from Wakala	26,908	26,255
Income from Istisna	1,560	806
Income from Musharaka	-	427
	<u>594,983</u>	<u>495,174</u>
	<u>=====</u>	<u>=====</u>

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

17. Earnings per share

Earnings per share are computed by dividing the profit for the period by the weighted average number of shares outstanding during the period as follows:

	Three month period ended 30 September		Nine month period ended 30 September	
	2018 (unaudited)	2017 (unaudited)	2018 (unaudited)	2017 (unaudited)
Basic earnings per share				
Profit for the period (AED'000)	40,818	39,183	119,819	94,453
Directors remunerations (AED'000)	-	-	(2,500)	(2,500)
	<u>40,818</u>	<u>39,183</u>	<u>117,319</u>	<u>91,953</u>
Weighted average number of shares outstanding during the period (in thousands)	<u>1,680,323</u>	<u>1,680,323</u>	<u>1,680,323</u>	<u>1,680,323</u>
Basic earnings per share (AED)	<u>0.024</u>	<u>0.023</u>	<u>0.070</u>	<u>0.055</u>

There were no potentially dilutive shares as at 30 September 2018 and 30 September 2017.

18. Related parties transactions

Certain "related parties" (such as directors, key management personnel and major shareholders of the Group and companies of which they are principal owners) are customers of the Group in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.

Transactions

Transactions with related parties are shown below:

	Nine month period ended					
	30 September 2018 (unaudited)			30 September 2017 (unaudited)		
	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000
Depositors' share of profit	<u>53,869</u>	<u>974</u>	<u>54,843</u>	<u>36,679</u>	<u>974</u>	<u>38,653</u>
Income from Islamic financing and investing assets	<u>32,412</u>	<u>3,584</u>	<u>35,966</u>	<u>32,017</u>	<u>2,645</u>	<u>34,662</u>

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

18. Related parties transactions (continued)

Balances

Balances with related parties at the reporting date are shown below:

	30 September 2018 (unaudited)			31 December 2017 (audited)		
	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000
Islamic financing and investing assets	<u>1,964,913</u>	<u>156,471</u>	<u>2,121,384</u>	<u>1,840,462</u>	<u>143,033</u>	<u>1,983,495</u>
Islamic customers' deposits	<u>3,154,693</u>	<u>114,423</u>	<u>3,269,116</u>	<u>2,740,541</u>	<u>184,260</u>	<u>2,924,801</u>

Compensation of key management personnel

Key management compensation is as shown below:

	Nine month period ended	
	30 September 2018 AED'000 (unaudited)	2017 AED'000 (unaudited)
Short term employment benefits	<u>14,838</u>	<u>14,535</u>
Terminal benefits	<u>1,063</u>	<u>781</u>
	<u>15,901</u>	<u>15,316</u>

19. Contingencies and commitments

Capital commitments

At 30 September 2018, the Group had outstanding capital commitments of AED 50 million (31 December 2017: AED 77 million), which will be funded within the next twelve months.

Credit related commitments and contingencies

Credit related commitments include commitments to extend credit, which are designed to meet the requirements of the Group's customers.

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

19. Contingencies and commitments (continued)

The Group had the following credit related commitments and contingent liabilities:

	30 September 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Commitments to extend credit	1,391,273	978,860
Letters of credit	26,846	51,513
Letters of guarantee	353,755	499,446
	<u>1,771,874</u>	<u>1,529,819</u>

20. Segment analysis

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

For operating purposes, the Group is organised into business segments:

- (i) Consumer, corporate and investment banking, which principally provides finances and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and
- (ii) Treasury, which involves the management of the Group's investment portfolio.

These segments are the basis on which the Group reports its segment information. Transactions between segments are conducted at rates determined by management, taking into consideration the cost of funds and an equitable allocation of expenses.

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

20. Segment analysis (continued)

Segment results of operations

The segment information provided to the Board for the reportable segments are as follows:

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investments AED'000	Others AED'000	Total AED'000
Nine month period ended 30 September 2018 (unaudited)						
Net income from Islamic financing and investing assets	71,018	179,793	(22,576)	18,716	-	246,951
Income from investment securities	-	-	55,039	1,980	-	57,019
Impairment charges on financial assets	(13,660)	(46,275)	(2,480)	(154)	-	(62,569)
Net fee and other income	13,805	39,276	2,630	29,222	1,706	86,639
Staff cost	(40,270)	(11,094)	(2,264)	(5,230)	(90,409)	(149,267)
General and administrative expenses	(22,517)	(4,081)	(1,899)	(283)	(17,929)	(46,709)
Depreciation of property and equipment	-	-	-	-	(12,245)	(12,245)
Operating profit/(loss) (unaudited)	8,376	157,619	28,450	44,251	(118,877)	119,819
Nine month period ended 30 September 2017 (unaudited)						
Net income from Islamic financing and investing assets	70,383	153,995	10,069	5,697	-	240,144
Income from investment securities	-	-	58,393	5,135	-	63,528
Impairment charges on financial assets	(17,183)	(105,127)	(1,382)	(588)	-	(124,280)
Net fee and other income	15,421	49,117	9,064	23,150	-	96,752
Staff cost	(37,687)	(11,405)	(2,225)	(4,488)	(73,204)	(129,009)
General and administrative expenses	(21,399)	(3,526)	(596)	(130)	(14,061)	(39,712)
Depreciation of property and equipment	-	-	-	-	(12,970)	(12,970)
Operating profit/(loss) (unaudited)	9,535	83,054	73,323	28,776	(100,235)	94,453

Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)

20. Segment analysis (continued)

As at 30 September 2018
Segment assets (unaudited)

Segment liabilities (unaudited)

As at 31 December 2017
Segment assets (audited)

Segment liabilities (audited)

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investments AED'000	Others AED'000	Total AED'000
As at 30 September 2018						
Segment assets (unaudited)	4,183,296 =====	12,028,855 =====	2,396,116 =====	1,877,128 =====	580,231 =====	21,065,626 =====
Segment liabilities (unaudited)	4,271,376 =====	11,158,279 =====	2,185,196 =====	1,196,573 =====	263,283 =====	19,074,707 =====
As at 31 December 2017						
Segment assets (audited)	4,022,137 =====	11,519,408 =====	2,441,765 =====	1,425,537 =====	618,807 =====	20,027,654 =====
Segment liabilities (audited)	2,902,735 =====	12,297,184 =====	1,579,290 =====	864,178 =====	273,809 =====	17,917,196 =====

**Notes to the condensed consolidated financial statements
for the nine months period ended 30 September 2018 (continued)**

21. Capital adequacy ratio

The Central Bank of UAE ("CBUAE") has issued Basel III capital regulations, which came into effect from 1st February 2017 introducing minimum capital requirements at three levels, namely Common equity Tier I (CET I), Tier I (T I) and Total Capital.

The additional capital buffers "Capital conservation buffer" (CCB) and "Countercyclical capital buffer" (CCyB) have also been introduced with the maximum up to 2.5% of the RWA under each over and above the minimum CET I requirement of 7%.

For 2018, CCB is required to be maintained at 1.875% of the Capital base. This will increase to 2.5% in 2019 and remain stable thereafter. However, the CcyB is not yet in effect for the Group and is not required to be maintained for the period.

The capital adequacy ratio as per Basel III capital regulations is given below:

	30 September 2018	Minimum capital requirement 30 September 2018	*Minimum capital requirement by 2019
Capital Ratio			
a. Total capital ratio	14.13%	12.38%	13.00%
b. Tier 1 capital ratio	12.98%	8.50%	8.50%
c. CET1 ratio	12.98%	7.00%	7.00%
	=====	=====	=====

* The minimum capital requirements by 2019 does not consider the CCyB.

22. Approval of condensed consolidated financial statements

The condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on 31 October 2018.