

**Ajman Bank PJSC**

**Report and consolidated financial statements  
for the year ended 31 December 2016**

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

**Ajman Bank PJSC**

**Report and consolidated financial statements  
for the year ended 31 December 2016**

<b>Contents</b>	<b><u>Pages</u></b>
<b>Independent auditor's report</b>	<b>1 - 6</b>
<b>Consolidated statement of financial position</b>	<b>7</b>
<b>Consolidated income statement</b>	<b>8</b>
<b>Consolidated statement of profit or loss and other comprehensive income</b>	<b>9</b>
<b>Consolidated statement of changes in equity</b>	<b>10</b>
<b>Consolidated statement of cash flows</b>	<b>11</b>
<b>Notes to the consolidated financial statements</b>	<b>12 - 66</b>

## INDEPENDENT AUDITOR'S REPORT

**The Shareholders**  
**Ajman Bank PJSC**  
**Ajman**  
**United Arab Emirates**

### **Report on the audit of the consolidated financial statements**

#### *Opinion*

We have audited the consolidated financial statements of **Ajman Bank PJSC** (the “Bank”) and its **Subsidiaries** (together the “Group”), **Ajman, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### *Basis for opinion*

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

#### *Key audit matters*

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

**INDEPENDENT AUDITOR'S REPORT (continued)**

*Key audit matters (continued)*

Key audit matter	How the matter was addressed in our audit
<b>Impairment on Islamic financing and investing assets</b>	
<p>We focused on this area because it requires management and those charged with governance to make significant judgements, such as the identification of Islamic financing and investing assets that are deteriorating, the assessment of objective evidence of impairment, the assessment of the recoverable amount and the value of collateral. Due to the significance of Islamic financing and investing assets, net (representing 77% of total assets) and the related estimation uncertainty, we consider this a key audit matter.</p> <p>It is the judgements for collective provisioning which are the most significant as they are the most sensitive to adjustment. The two key judgements in the collective provisioning assessment are the likelihood of default and the emergence period and it is the earlier which is the single most critical judgement as there is limited historic data on which to accurately assess it.</p> <p>The Group's individual provisions are also subjective as a result of judgements needed and the relatively limited amount of data available for future cash flows. These Islamic financing and investing assets are individually monitored and the assessment of individual provisions for these Islamic financing and investing assets portfolios involves knowledge of each customer. The key judgement for individual provisions on these portfolios is the recoverable value of underlying collateral.</p> <p>A management overlay is applied to the modelled provisioning balances to reflect risk factors not taken into account by the models. This requires judgement in relation to the factors to be reflected as well as their estimated value.</p> <p>Management also applies adjustments, or overlays, where they believe the data driven parameters and calculations are not appropriate, either due to emerging trends or models not capturing the risks in the Islamic financing and investing assets portfolio. An example of this is an overlay for the concentration against certain customer which management apply on top of the impairment model output. These overlays require significant judgement.</p>	<p>Our audit procedures included the assessment of controls over the approval, recording and monitoring of Islamic financing and investing assets, and evaluating the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments and assessing the adequacy of impairment allowances for individually assessed Islamic financing and investing assets.</p> <p>We tested the design and operating effectiveness of relevant controls to determine which Islamic financing and investing assets are impaired and allowances against those assets. These included testing:</p> <ul style="list-style-type: none"> <li>▪ System-based and manual controls over the timely recognition of impaired Islamic financing and investing assets;</li> <li>▪ Controls over the impairment calculation models; and</li> <li>▪ Governance controls, including reviewing key meetings that form part of the approval process for Islamic financing and investing assets impairment allowances.</li> </ul> <p>We tested a sample of Islamic financing and investing assets to assess whether impairment events had been identified in a timely manner.</p> <p>In addition, we also focused on individually significant exposures. We tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. .</p> <p>We paid particular attention to collective impairment methodologies, focusing specifically on Corporate and Retail portfolios, either due to their relative size or the potential impact of changing inputs and assumptions. We also focused on portfolios that were potentially more sensitive to emerging economic trends.</p>

**INDEPENDENT AUDITOR'S REPORT (continued)**

**Key audit matters (continued)**

<b>Valuation of financial instruments</b>	
<p>Listed securities represent significant number on the consolidated statement of financial position and are one of the main driver of the Group's performance. Listed securities represented 11% of total assets of the Group at 31 December 2016 (see note 12). There is a risk that the prices quoted in respect of the listed securities held by the Group may not be reflective of fair value.</p> <p>Unlisted securities are valued using methodologies agreed by management and there are key inputs to the valuation calculations which reflect management's judgement. There is a risk that the application of an inappropriate valuation methodology and/or the use of inappropriate assumptions could result in the valuation of unlisted securities being materially misstated.</p>	<p>Our audit procedures included testing the design and operating effectiveness of relevant controls in the Group's financial instruments valuation process.</p> <p>Valuation for the listed securities was assessed by understanding the design and implementation of key controls around listed securities and testing valuations directly with independent pricing sources.</p> <p>Valuation for unlisted securities was tested by reviewing and challenging management's valuations for the full population, focusing on the appropriateness of the valuation methodology and assumptions used within the calculations (e.g. cash flow projections; growth projections; discount rate used).</p>

<b>Information Technology systems and controls over financial reporting</b>	
<p>Failure of not having appropriate IT systems and controls in place may lead to severe consequences on business continuance and the financial reporting process.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>▪ Reviewing major IT systems and applications including swift and FTS messaging;</li> <li>▪ Reviewing general computer controls for key IT systems;</li> <li>▪ Assessing IT security environment using our certified IT system auditors; and</li> <li>▪ Focused on key controls testing on significant IT systems relevant to business processes.</li> </ul>

<b>Valuation of Investment property</b>	
<p>Investment property fair value and impairment assessment can be affected by:</p> <ul style="list-style-type: none"> <li>▪ Using incorrect methodology to conduct impairment assessment;</li> <li>▪ Using inappropriate valuation models, discount rates, terminal values and/or assumptions that are not realistic or feasible; and</li> <li>▪ not factoring increased supply or competition resulting to lower occupancy or lower rental yields, not including administrative costs or costs that are directly associated with the revenue-earning properties, incorrectly estimating the cost to complete on the projects.</li> </ul>	<p>We have reviewed the valuation processes and internal controls. We have tested the valuation models, for their accuracy and evaluate any external independent valuations, and assessed the valuation assumptions used in valuations.</p>

## INDEPENDENT AUDITOR'S REPORT (continued)

### *Other information*

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Group. We obtained Board of Directors' report prior to the date of this auditor's report, and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not and we will not express any form of assurance conclusion thereon.

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

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

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and Board Audit & Compliance Committee 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.

## INDEPENDENT AUDITOR'S REPORT (continued)

### *Auditor's responsibilities for the audit of the consolidated financial statements (continued)*

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Group and 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 the Group's Board Audit & Compliance Committee, 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 (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 Directors' report is consistent with the Group's books of account;
- v. note 12 to the consolidated financial statements of the Group discloses its investments in equity instruments during the financial year ended 31 December 2016;
- vi. note 29 to the consolidated financial statements of the Group discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests;
- vii. based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016; and
- viii. note 34 to the consolidated financial statements discloses social contributions made during the financial year ended 31 December 2016.

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

Deloitte & Touche (M.E.)



Musa Ramahi  
Registration No. 872  
26 January 2017  
Dubai  
United Arab Emirates



**Consolidated statement of financial position  
as at 31 December 2016**

	Notes	2016 AED'000	2015 AED'000
<b>ASSETS</b>			
Cash and balances with the Central Bank	9	608,976	1,541,736
Due from banks and other financial institutions	10	334,747	251,634
Islamic financing and investing assets, net	11	12,372,535	11,130,785
Investment securities	12	1,852,453	881,609
Investment property	13	322,398	78,000
Property and equipment	14	140,637	140,471
Other assets	15	369,830	297,413
<b>Total assets</b>		<b>16,001,576</b>	<b>14,321,648</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Islamic customers' deposits	16	11,097,896	11,012,126
Due to banks and other financial institutions	17	2,542,472	1,817,888
Other liabilities	18	349,777	260,785
<b>Total liabilities</b>		<b>13,990,145</b>	<b>13,090,799</b>
<b>Equity</b>			
Share capital	19	1,623,500	1,050,000
Statutory reserve	20	214,464	26,910
Investment fair value reserve		(34,119)	(19,375)
Retained earnings		207,586	173,314
<b>Total equity</b>		<b>2,011,431</b>	<b>1,230,849</b>
<b>Total liabilities and equity</b>		<b>16,001,576</b>	<b>14,321,648</b>

.....  
H.H. Sheikh Ammar Bin Humaid Al Noaimi  
Chairman

.....  
Mohamed Abdulrahman Amiri  
Chief Executive Officer

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

**Consolidated income statement  
for the year ended 31 December 2016**

	Notes	2016 AED'000	2015 AED'000
<b>Operating income</b>			
Income from Islamic financing and investing assets	22	560,782	488,289
Income from investment securities	23	83,778	30,929
Fees, commission and other income	24	132,544	79,669
		<u>777,104</u>	<u>598,887</u>
<b>Total operating income before depositors' share of profit</b>		<b>777,104</b>	<b>598,887</b>
Depositors' share of profits		(271,839)	(177,269)
		<u>505,265</u>	<u>421,618</u>
<b>Net operating income</b>			
<b>Expenses</b>			
Staff costs	25	(178,676)	(163,728)
General and administrative expenses	26	(51,402)	(52,748)
Depreciation of property and equipment	14	(15,017)	(16,882)
Impairment charge for Islamic financing and investing assets	11	(132,538)	(60,903)
Impairment charge on other receivables		(2,087)	(5,282)
		<u>(379,720)</u>	<u>(299,543)</u>
<b>Total expenses</b>		<b>(379,720)</b>	<b>(299,543)</b>
		<u>125,545</u>	<u>122,075</u>
<b>Profit for the year</b>		<b>125,545</b>	<b>122,075</b>
		<u>0.085</u>	<u>0.098</u>
<b>Earnings per share (AED)</b>	27	<b>0.085</b>	<b>0.098</b>

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

**Consolidated statement of profit or loss and other comprehensive income  
for the year ended 31 December 2016**

	2016 AED'000	2015 AED'000
<b>Profit for the year</b>	<b>125,545</b>	122,075
<b><i>Other comprehensive (loss)/income</i></b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
<u>Available for sale investments</u>		
Fair value gain on available for sale investments	27,580	10,340
Reclassification adjustments relating to available for sale financial assets disposed of during the year	(42,324)	(3,308)
<b>Other comprehensive (loss)/income for the year</b>	<b>(14,744)</b>	7,032
<b>Total comprehensive income for the year</b>	<b>110,801</b>	129,107

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

**Consolidated statement of changes in equity  
for the year ended 31 December 2016**

	Share capital AED'000	Statutory reserve AED'000	Investment fair value reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2015	1,000,000	14,702	(26,407)	114,873	1,103,168
Profit for the year	-	-	-	122,075	122,075
Other comprehensive income	-	-	7,032	-	7,032
Total comprehensive income for the year	-	-	7,032	122,075	129,107
Transfer to statutory reserve	-	12,208	-	(12,208)	-
Stock dividend (Note 21)	50,000	-	-	(50,000)	-
Directors' remuneration	-	-	-	(1,426)	(1,426)
<b>At 31 December 2015</b>	<b>1,050,000</b>	<b>26,910</b>	<b>(19,375)</b>	<b>173,314</b>	<b>1,230,849</b>
At 1 January 2016	1,050,000	26,910	(19,375)	173,314	1,230,849
Profit for the year	-	-	-	125,545	125,545
Other comprehensive loss	-	-	(14,744)	-	(14,744)
Total comprehensive income for the year	-	-	(14,744)	125,545	110,801
Transfer to statutory reserve	-	12,554	-	(12,554)	-
Issuance of share capital (Note 19)	500,000	175,000	-	-	675,000
Issuance cost of share capital	-	-	-	(2,719)	(2,719)
Stock dividends (Note 21)	73,500	-	-	(73,500)	-
Directors' remuneration (Note 21)	-	-	-	(2,500)	(2,500)
<b>At 31 December 2016</b>	<b>1,623,500</b>	<b>214,464</b>	<b>(34,119)</b>	<b>207,586</b>	<b>2,011,431</b>

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

**Consolidated statement of cash flows  
for the year ended 31 December 2016**

	Note	2016 AED'000	2015 AED'000
<b>Cash flow from operating activities</b>			
Profit for the year		125,545	122,075
<i>Adjustments for:</i>			
Depreciation of property and equipment		15,017	16,882
Impairment charge on Islamic financing, investing assets and other receivables		134,625	66,185
Income from investment securities		(41,454)	(27,621)
Property and equipment written off		96	1,496
Fair value adjustment of investment property		(50,961)	(4,985)
Realized gain on disposal of investment securities		(42,324)	(3,308)
Gain on disposal of property and equipment		(23)	-
		<u>140,521</u>	<u>170,724</u>
<b>Operating cash flows before changes in operating assets and liabilities</b>			
<i>Changes in operating assets and liabilities:</i>			
Increase in Islamic financing and investing assets		(1,374,288)	(2,655,379)
Increase in due from banks and other financial institutions		(91,780)	(165,263)
Increase in statutory deposit with the Central Bank		(37,822)	(78,880)
Increase in other assets		(74,504)	(61,436)
Increase in Islamic customers' deposits		85,770	2,503,384
Increase in due to banks and other financial institutions		724,584	487,941
Increase/(decrease) in other liabilities		88,992	(28,646)
		<u>(538,527)</u>	<u>172,445</u>
<b>Cash (used in)/generated from operations</b>			
Payment of directors' remunerations		(2,500)	(1,426)
		<u>(541,027)</u>	<u>171,019</u>
<b>Net cash (used in)/generated from operating activities</b>			
<b>Cash flows from investing activities</b>			
Purchase of investment securities		(3,798,735)	(502,698)
Proceeds from sale of investment securities		3,352,739	334,332
Purchase of property and equipment		(15,279)	(115,001)
Proceeds from disposal of property and equipment		23	-
Profit income received on investment securities		42,915	3,308
Additions to investment property		(193,437)	(21,015)
		<u>(611,774)</u>	<u>(301,074)</u>
<b>Net cash used in investing activities</b>			
<b>Cash flows from financing activities</b>			
Issuance of share capital		675,000	-
Issuance cost of share capital		(2,719)	-
		<u>672,281</u>	<u>-</u>
<b>Net cash generated from financing activities</b>			
<b>Net decrease in cash and cash equivalents</b>		<u>(480,520)</u>	<u>(130,055)</u>
Cash and cash equivalents at the beginning of the year		<u>1,428,849</u>	<u>1,558,904</u>
<b>Cash and cash equivalents at the end of the year</b>	28	<u><u>948,329</u></u>	<u><u>1,428,849</u></u>

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

## Notes to the consolidated financial statements for the year ended 31 December 2016

### 1. General information

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 Bank has its registered office at Al Sanad Building, Mushrif Area, Sheikh Zayed Road, P.O. Box 7770, Ajman, United Arab Emirates (“UAE”) and was legally incorporated on 17 April 2008. The Bank 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 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 no material effect on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2016, have been adopted in these 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.

- IFRS 14 *Regulatory Deferral Accounts*.
- Amendments to IAS 1 *Presentation of Financial Statements* relating to disclosure initiative.
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortization.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants*.
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities.
- Annual Improvements to IFRSs 2012 - 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

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

**2.2 New and revised IFRS in issue but not yet effective**

The Group has not yet applied the following new and revised IFRS that have been issued but are not yet effective:

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28.	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017.
Amendments to IAS 12 <i>Income Taxes</i> relating to the recognition of deferred tax assets for unrealised losses.	1 January 2017
Amendments to IAS 7 <i>Statement of Cash Flows</i> to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
The interpretation addresses foreign currency transactions or parts of transactions where: <ul style="list-style-type: none"> <li>• there is consideration that is denominated or priced in a foreign currency;</li> <li>• 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</li> <li>• the prepayment asset or deferred income liability is non-monetary.</li> </ul>	
Amendments to IFRS 2 <i>Share Based Payment</i> regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 <i>Insurance Contracts</i> : Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

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

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

**New and revised IFRS**

**Effective for  
annual periods  
beginning on or after**

Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.

1 January 2018

Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9.

When IFRS 9 is first applied

IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.

When IFRS 9 is first applied

IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014)

1 January 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a ‘fair value through other comprehensive income’ category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity’s own credit risk.



**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

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

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

**New and revised IFRS**

**Effective for  
annual periods  
beginning on or after**

IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014) (continued)

1 January 2018

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

IFRS 15 *Revenue from Contracts with Customers*

1 January 2018

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.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

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

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IFRS 15 <i>Revenue from Contracts with Customers</i> to clarify three 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.	1 January 2018
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 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
Management anticipates that these new standards, interpretations and amendments will be adopted in the Group’s consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9 and IFRS 15 , may have no material impact on the consolidated financial statements of the Group in the period of initial application.	
Management anticipates that these standards, interpretations and amendments will be adopted in the Group’s consolidated financial statements for the annual period beginning 1 January 2018 and that IFRS 16 will be adopted in the Group’s consolidated financial statements for the annual period beginning 1 January 2019. The application of IFRS 9 may have significant impact on amounts reported and disclosures made in the Group’s consolidated financial statements in respect of the Group’s financial assets and financial liabilities and the application of IFRS 16 may have an impact on amounts reported and disclosures made in the Group’s consolidated financial statements in respect of its leases. However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.	

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****3. Definitions**

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

**Murabaha**

Is a contract whereby the Group (the “Seller”) sells an asset to its customer (the “Purchaser”), on a deferred payment basis, after purchasing the asset and gaining possession thereof and title thereto, where the Seller has purchased and acquired that asset, based on a promise received from the Purchaser to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha sale price comprises the cost of the asset and a pre-agreed profit amount. Murabaha profit is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding. The Murabaha sale price is paid by the Purchaser to the Seller on an installment basis over the period of the Murabaha as stated in the contract.

**Wakala**

Is an agreement between two parties whereby one party is a fund provider (the “Muwakkil”) who provides a certain amount of money (the “Wakala Capital”) to an agent (the “Wakeel”), who invests the Wakala Capital in a Sharia’a compliant manner and according to the feasibility study or investment plan submitted to the Muwakkil by the Wakeel. The Wakeel is entitled to a fixed fee (the “Wakala Fee”) as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle the Wakala profit is distributed on declaration or distribution by the Wakeel. However, since the Wakala profit is always reliably estimated it is internally distributed on a time-apportioned basis over the Wakala tenure based on the Wakala Capital outstanding. The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement the Group may act either as Muwakkil or as Wakeel, as the case may be.

**Istisna’a**

Is a sale contract between two parties whereby the Bank (the “Sani” or “Seller”) undertakes to construct, for its customer (the “Mustasni” or “Purchaser”), a specific asset or property (being “Al-Masnoo”) according to certain pre-agreed specifications to be delivered during a pre-agreed period of time in consideration of a pre-determined price, which comprises the cost of construction and a profit amount. The work undertaken is not restricted to be accomplished by the Sani’ alone and the whole or part of the construction or development can be undertaken by third parties under the control and responsibility of the Sani’. Under an Istisna’a contract the Bank could be the Sani’ or the Mustasni’. Istisna’a profit (difference between the sale price of Al-Masnoo to the customer and the Bank’s total Istisna’a cost) is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****3. Definitions (continued)****Mudaraba**

Is a contract between two parties whereby one party is a fund provider (the “Rab Al Mal”) who would provide a certain amount of funds (the “Mudaraba Capital”), to the other party (the “Mudarib”). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit, if any. The Rab Al Mal is not involved in the management of the Mudaraba activity. In principle the Mudaraba profit is distributed on declaration or distribution by the Mudarib. However, since the Mudaraba profit is always reliably estimated it is internally distributed on a time-apportioned basis over the Mudaraba tenure based on the Mudaraba Capital outstanding. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal, provided the Rab Al Mal receives satisfactory evidence that such loss was due to force majeure and that the Mudarib neither was able to predict the same nor could have prevented the negative consequences of the same on the Mudaraba. Under the Mudaraba contract the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

**Musharaka**

Is an agreement between the Group and its customer, whereby both parties contribute towards the capital of the Musharaka (the “Musharaka Capital”). The Musharaka Capital may be contributed in cash or in kind, as valued at the time of entering into the Musharaka. The subject of the Musharaka may be a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to a pre-agreed profit distribution ratio as stipulated under the Musharaka agreement. In principle Musharaka profit is distributed on declaration or distribution by the managing partner. However, since the Musharaka profit is always reliably estimated, it is internally distributed on a time-apportioned basis over the Musharaka tenure based on the Musharaka Capital outstanding. Whereas the loss, if any, is shared in proportion to their capital contribution ratios, provided in the absence of the managing partner’s negligence, breach or default, the Group receives satisfactory evidence that such loss was due to force majeure and that the managing partner neither was able to predict the same nor could have prevented the negative consequences of the same on the Musharaka.

**Ijarah**

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

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

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

Ijarah rentals accrue upon the commencement of the lease and continues throughout the lease term based on the outstanding fixed rentals (which predominantly represent the cost of the leased assets).

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****3. Definitions (continued)****Sukuk**

These comprise asset backed, Sharia'a compliant trust certificates.

**4. Significant accounting policies****(a) Statement of compliance**

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

**(b) Basis of preparation**

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments and investment property that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than that quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****4. Significant accounting policies (continued)****(c) Basis of consolidation**

The principal accounting policies are set out below:

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank has:

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

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

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the financial period are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to shareholders of the Parent.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****4. Significant accounting policies (continued)****(c) Basis of consolidation (continued)**

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss have been recognised in the consolidated statement of comprehensive income and accumulated in equity, the amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are accounted for as if the Parent had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs).

**(d) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances held with Central and other Banks and highly liquid financial assets with original maturities of less than three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value, and are used by the Group in the management of its short term commitments.

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

**(e) Due from banks**

Due from banks are stated at cost less any amounts written-off and allowance for impairment, if any

**(f) Financial instruments**

Financial assets and liabilities are recognised when a Bank's entity becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition

***Financial assets***

Financial assets are classified into the following specified categories: 'held-to-maturity' investments, 'available for sale investment' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition

***Effective profit method***

The effective profit method is a method of calculating the amortised cost of a debt instrument and of allocating profit income over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective profit basis for debt instruments.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**4. Significant accounting policies (continued)**

**(f) Financial instruments (continued)**

*Financial assets (continued)*

*Held-to-maturity (HTM)*

Held-to-maturity (HTM) assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, where the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity assets are measured at amortised cost using the effective profit method less any impairment.

*Available-for-sale (AFS)*

Available-for-sale (AFS) assets are those non-derivative financial assets that are designated as available-for-sale or not classified as (a) financing products, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

*Islamic financing and investing assets*

Islamic financing and investing assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including cash and cash equivalents, Islamic finance receivables and other receivables) are measured at amortised cost using the effective profit method, less any impairment.

Profit income is recognised by applying the effective profit rate, except for short-term receivables when the effect of discounting is immaterial

*Impairment of financial assets*

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

Objective evidence of impairment could include:

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective profit rate.

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



**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**4. Significant accounting policies (continued)**

**(f) Financial instruments (continued)**

*Financial assets (continued)*

*Derecognition of financial assets*

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

*Financial liabilities and equity instruments*

*Classification as debt or equity*

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

*Equity instruments*

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

*Financial liabilities*

Financial liabilities are classified as 'other financial liabilities'.

Other financial liabilities (including other liabilities and accruals) are subsequently measured at amortised cost using the effective profit method.

*Effective profit method*

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

*Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**4. Significant accounting policies (continued)**

**(g) Property and equipment**

*Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

*Subsequent costs*

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the consolidated income statement as incurred.

*Depreciation*

Depreciation is recognised in statement of income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	Years
Leasehold improvements	7
Computers and software	3 to 7
Office furniture and equipment	5
Motor vehicles	5
Buildings	25

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Gain and losses on disposals are determined by comparing proceeds with the carrying amount. The differences are included in the consolidated income statement.

Capital work in progress is stated at cost. When commissioned, capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the Group's accounting policies.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****4. Significant accounting policies (continued)****(h) 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 reported at valuation based on fair value at the end of the reporting period. 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 that 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 consolidated income statement in the period in which these gains or losses arise.

All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred. The fair value of investment property is based on the nature, location and condition of the specific asset.

**(i) Assets acquired in settlement of Islamic financing and investing assets**

The Group occasionally acquires real estate and other collateral in settlement of Islamic financing and investing assets. Such real estate and other collateral are stated at the lower of the net realisable value of Islamic financing and investing assets and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation are recognised in the consolidated income statement.

**(j) Islamic customer deposits, due to bank and other financial institutions and other liabilities**

Islamic customer deposits, due to bank and other financial institutions and other liabilities are initially recognised at fair value and subsequently measured at amortised cost.

**(k) Provisions and contingent liabilities**

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

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

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

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements.

**(l) Acceptances**

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****4. Significant accounting policies (continued)****(m) Revenue recognition**

Income from Islamic financing and investing assets and investment securities, including fees which are considered an integral part of the effective profit of a financial instrument, are recognized in the consolidated income statement using the effective profit rate method.

**(n) Fees and other income**

Fees and other income from banking services provided by the Group are recognized on an accrual basis when the service has been provided.

**(o) Dividend income**

Dividend income is recognised when the Group's right to receive the payment is established.

**(p) Employees' benefits**

The Group provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

**(q) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

**(r) Foreign currency transactions**

Transactions denominated in foreign currencies are translated into AED at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the foreign exchange rates ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into AED at the foreign exchange rates ruling on the date of the transaction. Realised and unrealised exchange gains and losses have been dealt within the consolidated income statement.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****4. Significant accounting policies (continued)****(s) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is a person or group of persons that allocates resources and assesses the performance of the operating segments of an entity. The Group has determined the Bank's Executive Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

**(t) Fiduciary activities**

The Group acts as trustee/manager and in other capacities that result in holding or placing of assets in a fiduciary capacity on behalf of trusts or other institutions. Such assets and income arising thereon are not included in the Group's consolidated financial statements as they are not assets of the Group.

**(u) Offsetting of financial assets and liabilities**

Financial assets and liabilities are offset and reported net in the statement of financial position only when there is a legally enforceable right to set off the recognised amounts or when the Branches intend to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**(v) 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.

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 recognized in the consolidated income statement 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.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****4. Significant accounting policies (continued)****(v) Fair value measurement principles (continued)**

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 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 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, using the present value 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

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

The Group's consolidated financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgment, which necessarily have to be made in the course of preparation of the consolidated financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgments for certain items are especially critical for the Group's results and financial situation due to their materiality.

***Impairment losses on Islamic financing and investing assets***

The Group reviews its Islamic financing and investing assets portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of Islamic financing and investing assets before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****5. Critical accounting judgments and key sources of estimation of uncertainty (continued)***Held-to-maturity investment securities*

In accordance with IAS 39 guidance, the Group classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an other than insignificant amount close to maturity – the Group is required to reclassify the entire category as available for sale. Accordingly, the investment securities would be measured at fair value instead of amortised cost.

*Investment property*

The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values have been determined using the residual method. The Residual method is applicable to properties where the value would be maximized if it were to be developed, redeveloped, or refurbished. To arrive at the current market value of the property in its existing state the estimated end development value is calculated, then all costs in carrying out the development are deducted, including cost of the physical construction, professional fees, financing, and developer's profit.

**6. Financial risk management**

The Group's activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business, and the operational risks are an inevitable consequence of being in business. The Group's aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, and is subject to risk limits and other controls.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of realizable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

*Risk Management Framework*

Risk management is carried out by the Risk Management Division under policies that are approved by the Board of Directors. The Risk Management Division is responsible for the independent review of risk management and the control environment. The most important types of risks that the Group is exposed to are, credit and concentrations risk, market risk and liquidity risk. Market risk includes profit rate risk, currency risk and price risk. The Group is also subject to operational risks. The independent risk control process does not however, monitor business risks such as changes in the environment, technology and industry. These risks are monitored through the Group's strategic planning process.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****6. Financial risk management (continued)****6.1 Risk management structure**

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks of the Group.

*Board of Directors*

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

*Executive committee*

Executive committee acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives.

*Audit committee*

The Audit committee consists of Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Reviewing reports on the internal controls;
- Managing the relationship with the Group's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

*Sharia Board*

The Sharia Board is responsible for Sharia governance in terms of overview and approval of products and documentation in relation to Sharia compatibility and overall Sharia compliance.

*Risk & Compliance Committee of the Board ("RCC")*

This RCC assists the Board of Directors in discharging its responsibilities with respect to ensuring that the Group's activities comply with the statutory laws and regulations, the system of internal control over financial reporting and with the Group's code of conduct.

*Credit committee*

Credit committee manages the credit risk of the Group by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the financing portfolio and the sufficiency of provisions thereof.

*Asset and Liability Committee ("ALCO")*

The objective of ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors.



**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****6. Financial risk management (continued)****6.1 Risk management structure (continued)***Human resource committee*

Human resource committee manages the resources, performance and requirement of individuals required by Group on time to time basis.

*Risk Management Division (“RMD”)*

The RMD is responsible for implementing and maintaining risk related procedures to ensure an independent control process. The RMD is also responsible for credit administration, compliance and risk management functions such as, credit risk management, market risk, operational risk and overall risk controls.

*Internal audit*

Management processes at the Group are audited periodically by the internal audit function, which examines both the adequacy of the procedures and the Group’s compliance with the procedures. Internal audit discusses the results of its assessments with management, and reports its findings and recommendations directly to the Audit Committee.

**6.2 Risk measurement and reporting systems**

The Group measures risks using conventional qualitative methods for credit, market and operational risks. Further, the Group also uses quantitative analysis and methods to support revisions in business and risk strategies as and when required. These analysis and methods reflect both the expected loss likely to arise in normal course of business or unexpected losses in an unforeseen event based on simple statistical techniques and probabilities derived from historical experience. The Group also runs stress scenarios that would arise in the event that extreme events which are unlikely to occur or, in fact, occur.

Monitoring and controlling risks is primarily performed in relation to limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries.

**6.3 Credit risk and concentrations of risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s Islamic financing instruments and investment securities.

*Credit risk measurement*

The Group’s Risk Management Framework assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. The framework has been developed internally and combines statistical analysis with credit officer judgment and is validated, where appropriate, by comparison with externally available data.

The Group’s exposure to credit risk is measured on an individual counterparty basis, as well as by group of counterparties that share similar attributes. To reduce the potential of risk concentration, credit limits have been established and are monitored in the light of changing counterparty and market conditions.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****6. Financial risk management (continued)****6.3 Credit risk and concentrations of risk (continued)*****Management of credit risk***

The Group's Credit Risk Management Framework includes:

- Establishment of an authorization structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with the authorization structure and limits, prior to facilities being sanctioned to customers; renewals and reviews of facilities are subject to the same review process;
- Diversification of financing and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with the Group's risk management strategy and market trends.

***Risks relating to credit-related commitments***

The Group makes available to its customers, guarantees and letters of credit which require that the Group makes payments in the event that the customer fails to fulfil certain obligations to other parties. These instruments expose the Group to a similar risk to financing and investing assets and these are monitored by the same control processes and policies.

***Concentration of credit risk***

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The Group monitors concentrations of credit risk by industry sectors and geographic location. Identified concentration of credit risk is controlled and managed accordingly.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**6. Financial risk management (continued)**

**6.3 Credit risk and concentrations of risk (continued)**

*Concentration of credit risk (continued)*

*By geographic location*

Based on the domicile of the counterparties, the following table sets out the Group's main credit exposures at their carrying amounts, categorized by geographical region:

**On balance sheet items**

	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
<b>2016</b>				
Due from banks and other financial institutions	39,325	75,691	219,731	334,747
Islamic financing and investing assets:				
- Retail	3,776,026	-	-	3,776,026
- Corporate	8,626,449	198,038	131,197	8,955,684
- Treasury	2,713	-	-	2,713
Investment securities				
- Available-for-sale	637,681	521,398	693,374	1,852,453
Other assets	522,528	-	-	522,528
<b>Total</b>	<b>13,604,722</b>	<b>795,127</b>	<b>1,044,302</b>	<b>15,444,151</b>
<b>2015</b>				
Due from banks and other financial institutions	75,574	1,186	174,874	251,634
Islamic financing and investing assets:				
- Retail	2,835,673	-	342	2,836,015
- Corporate	8,104,243	123,813	153,063	8,381,119
- Treasury	121,362	36,712	-	158,074
Investment securities				
- Held-to-maturity	352,227	166,747	-	518,974
- Available-for-sale	158,316	-	204,319	362,635
Other assets	820,953	-	-	820,953
<b>Total</b>	<b>12,468,348</b>	<b>328,458</b>	<b>532,598</b>	<b>13,329,404</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**6. Financial risk management (continued)**

**6.3 Credit risk and concentrations of risk (continued)**

*Concentration of credit risk (continued)*

*By geographic location (continued)*

**Off balance sheet items**

	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
<b>2016</b>				
Commitments	881,165	154,159	8,802	1,044,126
Letters of credit and guarantee	537,792	-	-	537,792
<b>Total</b>	<b>1,418,957</b>	<b>154,159</b>	<b>8,802</b>	<b>1,581,918</b>
	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
<b>2015</b>				
Commitments	780,232	-	104,423	884,655
Letters of credit and guarantee	545,510	-	-	545,510
<b>Total</b>	<b>1,325,742</b>	<b>-</b>	<b>104,423</b>	<b>1,430,165</b>

***Credit quality***

The credit quality of Islamic financing and investing assets is managed by the Group using internal credit ratings model. The risk rating system is used as a credit risk management tool whereby counter party risks are rated against a set of predetermined standards which also complies with the Central Bank guidelines.

*Credit risk rating methodology*

The Group's credit risk rating methodology follows the categorization of credit risk assets under the following risk classification/grading system:

	2016 AED'000	2015 AED'000
Neither past due nor impaired	11,502,157	10,591,838
Past due but not impaired	848,144	641,718
Impaired	384,122	141,652
	<b>12,734,423</b>	<b>11,375,208</b>
Less: Provision for impairment	<b>(361,888)</b>	<b>(244,423)</b>
	<b>12,372,535</b>	<b>11,130,785</b>

Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)

6. Financial risk management (continued)

6.3 Credit risk and concentrations of risk (continued)

*Credit quality (continued)*

*Credit risk rating methodology (continued)*

	2016 AED'000	2015 AED'000
<i>Neither past due nor impaired:</i>		
AAA-BBB	6,515,529	5,946,036
BB-B	1,455,782	1,782,166
Not rated	3,530,846	2,863,636
	<u>11,502,157</u>	<u>10,591,838</u>
<i>Past due but not impaired:</i>		
AAA-BBB	265,214	136,092
BB-B	159,180	223,990
Not rated	423,750	281,636
	<u>848,144</u>	<u>641,718</u>
<i>Impaired:</i>		
Sub standard	84,731	6,019
Doubtful	55,451	8,638
Loss	243,940	126,995
	<u>384,122</u>	<u>141,652</u>

*Individually impaired by industry sectors*

	Overdue			Total AED'000
	90 - 120 days AED'000	120 - 180 days AED'000	More than 180 days AED'000	
<b>2016</b>				
Personal	1,735	25,673	83,704	111,112
Manufacturing	-	4,733	24,446	29,179
Trade	21,272	1,366	82,536	105,174
Services	-	68,868	5,657	74,525
Other	-	-	64,132	64,132
<b>Total</b>	<u>23,007</u>	<u>100,640</u>	<u>260,475</u>	<u>384,122</u>

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**6. Financial risk management (continued)**

**6.3 Credit risk and concentrations of risk (continued)**

*Credit quality (continued)*

*Individually impaired by industry sectors (continued)*

	Overdue			Total AED'000
	90 - 120 days AED'000	120 - 180 days AED'000	More than 180 days AED'000	
2015				
Personal	2,951	4,541	106,534	114,026
Manufacturing	-	-	11,289	11,289
Trade	-	3,983	7,346	11,329
Services	3,067	115	322	3,504
Other	-	-	1,504	1,504
<b>Total</b>	<b>6,018</b>	<b>8,639</b>	<b>126,995</b>	<b>141,652</b>

*Past due but not impaired*

Islamic financing and investing assets less than 90 days past due are not considered impaired, unless information is available to indicate the contrary. Islamic financing and investing assets past due but not impaired comprise:

	2016 AED'000	2015 AED'000
Past due up to 30 days	495,380	298,716
Past due 31 to 60 days	139,417	122,707
Past due 61 to 90 days	213,347	220,295
	<b>848,144</b>	<b>641,718</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**6. Financial risk management (continued)**

**6.3 Credit risk and concentrations of risk (continued)**

*Credit quality (continued)*

*Maximum exposure to credit risk*

The maximum exposure to credit risk taking into account the worst case scenario before taking the benefit of any collateral held or other credit enhancements is as follows:

	2016 AED'000	2015 AED'000
<b>Credit risk exposures relating to on-balance sheet assets are as follows:</b>		
Due from banks and other financial institutions	334,747	251,634
Islamic financing and investing assets	12,734,423	11,375,208
Investment securities	1,852,453	881,609
Other assets	522,528	820,953
	<u>15,444,151</u>	<u>13,329,404</u>
 Credit risk exposures relating to off-balance sheet items are as follows:		
Contingencies and commitments	<u>1,581,918</u>	<u>1,430,165</u>

***Risk mitigation and collateral management***

The Group seeks to manage its credit risk exposures through diversification of financing and investment activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Group actively uses collateral to reduce its credit risk.

The amount and type of collateral depends on assessments of the credit risk of the counterparty. The types of collateral mainly include cash, guarantees, pledge over listed shares and mortgage and liens over properties or other securities over assets. Collateral generally is not held against investments securities and due from banks.

Management monitors the market value of collateral, and wherever necessary the Group requests additional collateral in accordance with the underlying agreement, and considers collateral obtained during its review of the adequacy of the allowance for impairment losses.

Estimates of fair value are generally assessed on an annual basis except in the case of mortgages which are updated when a financing is individually assessed as impaired. In case of sukuk fair value estimates are reviewed at each reporting date. Market values of listed shares are monitored on a monthly basis and in the event of a shortfall, the Group requests additional collateral in accordance with the underlying agreement with the customer. An estimate of fair value of collateral and other security enhancements held against Islamic financing and investing assets are shown below.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**6. Financial risk management (continued)**

**6.3 Credit risk and concentrations of risk (continued)**

*Risk mitigation and collateral management (continued)*

Particulars	Islamic financing and investing assets		Collaterals	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
<b>Individually impaired</b>				
Property	135,103	55,936	115,476	51,647
Cash	-	3,984	-	792
Other	249,019	81,732	-	-
<b>Gross amount</b>	<b>384,122</b>	<b>141,652</b>	<b>115,476</b>	<b>52,439</b>
<b>Impairment loss</b>	<b>(198,019)</b>	<b>(96,101)</b>	<b>-</b>	<b>-</b>
<b>Carrying amount</b>	<b>186,103</b>	<b>45,551</b>	<b>115,476</b>	<b>52,439</b>
<b>Past due but not impaired</b>				
Pledged deposits	73,928	137,825	15,644	19,843
Property	267,336	226,282	257,668	213,760
Other	506,880	277,611	-	-
<b>Gross amount</b>	<b>848,144</b>	<b>641,718</b>	<b>273,312</b>	<b>233,603</b>
<b>Carrying amount</b>	<b>848,144</b>	<b>641,718</b>	<b>273,312</b>	<b>233,603</b>
<b>Neither past due nor impaired</b>				
Pledged deposits	1,886,253	1,475,570	1,713,480	743,627
Debt/Equity securities	20,797	20,508	20,797	20,508
Property	4,530,832	3,040,674	4,490,644	2,930,863
Other	5,064,275	6,055,086	-	-
<b>Gross amount</b>	<b>11,502,157</b>	<b>10,591,838</b>	<b>6,224,921</b>	<b>3,694,998</b>
<b>Collective impairment provision</b>	<b>(163,869)</b>	<b>(148,322)</b>	<b>-</b>	<b>-</b>
<b>Carrying amount</b>	<b>11,338,288</b>	<b>10,443,516</b>	<b>6,224,921</b>	<b>3,694,998</b>
<b>Total</b>	<b>12,372,535</b>	<b>11,130,785</b>	<b>6,613,709</b>	<b>3,981,040</b>
<b>Contingent liabilities</b>				
Cash margin	233,005	170,081	117,875	64,190
Other	304,787	375,429	-	-
<b>Total</b>	<b>537,792</b>	<b>545,510</b>	<b>117,875</b>	<b>64,190</b>



**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**6. Financial risk management (continued)**

**6.3 Credit risk and concentrations of risk (continued)**

*Islamic financing and investing assets renegotiated*

During the year ended 31 December 2016, Islamic financing and investing assets of AED 730 million (31 December 2015: AED 181 million) were re-negotiated.

*Credit risk in relation to cash and cash equivalents*

The Group held cash and cash equivalents of AED 948 million at 31 December 2016 (31 December 2015: AED 1,429 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the Central Bank and other banks and financial institutions counterparties, which are largely rated within Investment Grade.

*Investment securities*

The table below presents an analysis of investment securities based on external's ratings or their equivalent.

	2016 AED'000	2015 AED'000
Aa2	-	74,800
A1	-	208,469
A3	835,962	49,060
A2	248,693	36,112
Baa2	-	55,967
Baa3	85,143	-
Ba1	283,425	36,773
Ba3	31,697	-
C	-	38,994
Unrated	367,533	381,434
<b>Total</b>	<b>1,852,453</b>	<b>881,609</b>

All of the investment securities as at 31 December 2016 classified as available for sale were neither past due nor impaired.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**6. Financial risk management (continued)**

**6.4 Market risk**

Market risk arises from changes in market rates such as market price, foreign exchange and profit rate. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, currency rates and price movements. The Group uses appropriate models, based on standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by senior management.
- Independent mark-to-market valuations, reconciliation of positions and tracking of stop-losses for trading positions are performed on a timely basis.

The policies, procedures and the trading limits are set to ensure the effective implementation of the Group's market risk policies. These policies are reviewed periodically to ensure they remain in line with the Group's overall market risk policies.

***Profit rate risk***

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets, liabilities and off-balance sheet instruments that mature or re-price in a given period.

The Group is exposed to the effects of fluctuations in the prevailing levels of profit rates which arise from the Islamic financing and investing assets amounting to AED 12,373 million (2015: AED 11,131 million), investment securities amounting to AED 1,852 million (2015: AED 882 million), Due from banks and financial institutions AED 335 million (2015: AED 252 million), customer deposits amounting to AED 11,098 million (2015: AED 11,012 million) and AED 2,542 million (2015: AED 1,818 million) from due to banks and other financial institutions.

***Sensitivity analysis***

The amount mentioned in the table below reflect an equal but opposite potential effect on profit or loss based on assumed 50 basis point negative or positive movement in profit rates with all other variables being constant.

	2016		2015	
	Total AED'000	Effect on profit/(loss) AED'000	Total AED'000	Effect on profit/(loss) AED'000
Profit bearing asset	14,479,735	32,354	12,398,279	33,257
Profit bearing liabilities	11,718,527	36,364	10,990,080	32,818

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**6. Financial risk management (continued)**

**6.4 Market risk (continued)**

*Currency risk*

The Group is not significantly exposed to movements in foreign currency exchange rates as its asset and liabilities are mainly denominated in AED, GCC currency or USD.

*Price risk*

Price risk is the possibility that investment pricing will fluctuate, affecting the fair value of investments and other instruments that derive their value from a particular instrument or index of price.

The Group manages the price risk by maintaining a diversified portfolio in terms of geographical and industry distribution.

The amount mentioned in the table below reflect an equal but opposite potential effect on profit before tax and investments based on assumed 5% strengthening or weakening prices with all other variable constant.

	Benchmark	Impact on equity of the Group	
		2016 AED'000	2015 AED'000
Investment securities at AFS	± 5%	<u>92,623</u>	<u>18,132</u>

**6.5 Liquidity risk management**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding, if required.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)

6. Financial risk management (continued)  
6.5 Liquidity risk management (continued)

Maturity profile:

The maturity profile of the assets and liabilities at 31 December 2016 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Undated AED'000	Total AED'000
<b>Assets</b>							
Cash and balances with central bank	608,976	-	-	-	-	-	608,976
Due from banks and other financial institutions	77,704	-	91,813	-	165,230	-	334,747
Islamic financing and investing assets, net	2,207,616	923,741	820,251	5,075,064	3,345,863	-	12,372,535
Available for sale	663,988	-	-	313,130	875,335	-	1,852,453
Investment properties	-	-	-	-	-	322,398	322,398
Property and equipment	-	-	-	-	-	140,637	140,637
Other assets	208,829	37,846	23,151	44,577	55,427	-	369,830
<b>Total assets</b>	<b>3,767,113</b>	<b>961,587</b>	<b>935,215</b>	<b>5,432,771</b>	<b>4,441,855</b>	<b>463,035</b>	<b>16,001,576</b>
<b>Liabilities and equity</b>							
Islamic customers' deposits	6,440,533	2,619,478	1,971,885	66,000	-	-	11,097,896
Due to banks and other financial institutions	779,672	-	918,125	844,675	-	-	2,542,472
Other liabilities	326,553	23,224	-	-	-	-	349,777
Equity	-	-	-	-	-	2,011,431	2,011,431
<b>Total liabilities and equity</b>	<b>7,546,758</b>	<b>2,642,702</b>	<b>2,890,010</b>	<b>910,675</b>	<b>-</b>	<b>2,011,431</b>	<b>16,001,576</b>

Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)

6. Financial risk management (continued)

6.5 Liquidity risk management (continued)

Maturity profile:

The maturity profile of the assets and liabilities at 31 December 2015 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

Assets	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Undated AED'000	Total AED'000
Cash and balances with central bank	1,541,736	-	-	-	-	-	1,541,736
Due from banks and other financial institutions	86,371	-	-	91,813	73,450	-	251,634
Islamic financing and investing assets, net	2,559,561	962,440	676,179	4,064,444	2,868,161	-	11,130,785
Available for sale	165,325	-	-	79,256	118,054	-	362,635
Held to maturity	-	-	-	184,812	334,162	-	518,974
Investment properties	-	-	-	-	-	78,000	78,000
Property and equipment	-	-	-	-	-	140,471	140,471
Other assets	292,354	5,059	-	-	-	-	297,413
<b>Total assets</b>	<b>4,645,347</b>	<b>967,499</b>	<b>676,179</b>	<b>4,420,325</b>	<b>3,393,827</b>	<b>218,471</b>	<b>14,321,648</b>
<b>Liabilities and equity</b>							
Islamic customers' deposits	5,879,160	3,209,410	1,892,815	15,867	14,874	-	11,012,126
Due to banks and other financial institutions	330,525	-	-	1,487,363	-	-	1,817,888
Other liabilities	260,785	-	-	-	-	-	260,785
Equity	-	-	-	-	-	1,230,849	1,230,849
<b>Total liabilities and equity</b>	<b>6,470,470</b>	<b>3,209,410</b>	<b>1,892,815</b>	<b>1,503,230</b>	<b>14,874</b>	<b>1,230,849</b>	<b>14,321,648</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**6. Financial risk management (continued)**

**6.5 Liquidity risk (continued)**

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities (Sukuk) for which there is an active and liquid market less any deposits from banks, debt securities (Sukuk) issued, other financings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Central Bank. Details of the reported Bank's ratio of net liquid assets to deposits from customers at the reporting date and during the year were as follows:

	2016	2015
At 31 December	14%	16.41%

**6.6 Operational risks**

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 behaviour. 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 to avoid control procedures that restrict initiative and creativity.

The Group has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk and Compliance Committee identifies and manages operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

**6.7 Capital management**

The Central Bank sets and monitors capital requirements for the Group as a whole. The Parent company and overseas banking operations are directly supervised by their local regulators.

The Central Bank adopted the Basel II capital regime in November 2009. The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank. The minimum capital ratio prescribed by the Central Bank is 12% of Risk Weighted Assets (RWA) calculated as per the guidelines issued by them.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**6. Financial risk management (continued)**

**6.7 Capital management (continued)**

The Group's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, statutory reserve and retained earnings; and
- Tier 2 capital, which includes fair value reserves relating to unrealized gains / losses on investments classified as available-for-sale and collective impairment provision. The following limits have been applied for Tier 2 capital:
  - Total Tier 2 capital shall not exceed 67% of Tier 1 capital;
  - Subordinated liabilities shall not exceed 50% of total Tier 1 capital; and
  - Collective impairment provision shall not exceed 1.25% of total credit risk weighted assets.

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed 67% of Tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of Tier 1 capital. The Tier 1 capital must be a minimum of 8% of RWA.

The Group's assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. For Central Bank reporting purposes, the Bank is currently following the standardised measurement approach for credit, market and operational risk, as per Pillar 1 of Basel II.

The Group's policy is to maintain a strong capital base so as to maintain 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. Historically the Group has followed a conservative dividend policy to increase capital from internal resources to meet future growth.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

At the general assembly, the shareholders approved the increase in the Bank's issued share capital from AED 1,123,500,000 to AED 1,623,500,000 by way of a rights issue of 500,000,000 shares at an issue price of AED 1.35 per new share, reflecting the nominal value of AED 1 per new share and a share premium of 35 fils per share. During the year, the Bank completed the process of issuing 500,000,000 shares for AED 675,000,000 including the premium of 35 fils per share (Note 19).

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**6. Financial risk management (continued)**

**6.7 Capital management (continued)**

The Group is required to report capital resources and risk-weighted assets under the Basel II Pillar 3 framework, as shown in the following table:

	2016 AED'000	2015 AED'000
<b>Tier 1 capital</b>		
Share capital	1,623,500	1,050,000
Reserves	422,050	200,224
	<u>2,045,550</u>	<u>1,250,224</u>
<b>Tier 2 capital</b>		
General provision and fair value reserve	102,439	128,947
Total regulatory capital	<u>2,147,989</u>	<u>1,379,171</u>
<b>Risk weighted assets</b>		
Credit risk	10,929,410	9,872,885
Market risk	-	-
Operation risk	535,028	429,240
Total risk weighted assets	<u>11,464,438</u>	<u>10,302,125</u>
Capital adequacy ratio on regulatory capital	<u>18.74 %</u>	<u>13.39%</u>
Capital adequacy ratio on Tier 1 capital	<u>17.84 %</u>	<u>12.14%</u>

**Capital allocation**

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance and Risk Groups, and is subject to review by the Bank's Assets and Liabilities Committee (ALCO) as appropriate.

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



**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**7. Classification of financial assets and liabilities**

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

	Available for sale AED'000	Amortised cost AED'000	Total AED'000
<b>2016</b>			
<b>Financial assets:</b>			
Cash and balances with the central banks	-	608,976	608,976
Due from banks and other financial institutions	-	334,747	334,747
Islamic financing and investing assets	-	12,372,535	12,372,535
Available for sale	1,852,453	-	1,852,453
Other assets	-	64,628	64,628
<b>Total</b>	<b>1,852,453</b>	<b>13,380,886</b>	<b>15,233,339</b>
<b>Financial liabilities:</b>			
Islamic customers' deposits	-	11,097,896	11,097,896
Due to banks and other financial institutions	-	2,542,472	2,542,472
Other liabilities	-	93,247	93,247
<b>Total</b>	<b>-</b>	<b>13,733,615</b>	<b>13,733,615</b>
<b>2015</b>			
<b>Financial assets:</b>			
Cash and balances with the central banks	-	1,541,736	1,541,736
Due from banks and other financial institutions	-	251,634	251,634
Islamic financing and investing assets	-	11,130,785	11,130,785
Available for sale	362,635	-	362,635
Held to maturity	-	518,974	518,974
Other assets	-	50,436	50,436
<b>Total</b>	<b>362,635</b>	<b>13,493,565</b>	<b>13,856,200</b>
<b>Financial liabilities:</b>			
Islamic customers' deposits	-	11,012,126	11,012,126
Due to banks and other financial institutions	-	1,817,888	1,817,888
Other liabilities	-	53,190	53,190
<b>Total</b>	<b>-</b>	<b>12,883,204</b>	<b>12,883,204</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****8. Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

*Valuation techniques and assumptions applied for the purposes of measuring fair value*

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted profit rates matching maturities of the contracts. Profit rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted profit rates.

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**8. Fair value measurement (continued)**

The following table analyses financial instruments measured 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 consolidated statement of financial position.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<b>At 31 December 2016</b>				
<b>Financial assets</b>				
Investment securities at AFS	1,713,133	-	139,320	1,852,453
<b>Non-financial assets</b>				
Investment property	-	-	322,398	322,398
<b>At 31 December 2015</b>				
<b>Financial assets</b>				
Investment securities at AFS	332,635	-	30,000	362,635
<b>Non-financial assets</b>				
Investment property	-	-	78,000	78,000

**The effect of unobservable input on fair value measurement**

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used by  $\pm 10\%$  to reasonably possible alternative assumptions would have the following effects.

	Effect on profit or loss		Effect on OCI	
	Favorable AED'000	Unfavorable AED'000	Favorable AED'000	Unfavorable AED'000
<b>31 December 2016</b>	32,240	(32,240)	13,932	(13,932)
31 December 2015	7,800	(7,800)	3,000	(3,000)

- 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 its fair value.
- In respect of investment securities at AFS, management has used the quoted price when available to assess fair value or used a present value calculation (PVC) based on market observable inputs.
- Islamic financing and investing assets are fair valued based on PVC which takes into account original underlying cash financing credit grading and expected prepayments. These features are used to estimate the present value of the expected cash flows and using risk-adjusted rates. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted rate, and different assumptions and inputs would yield different results.
- Fair values of deposits from banks and customers are estimated using the PVC methodology, 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.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**9. Cash and balances with the Central Bank**

- (a) The analysis of the Bank's cash and balances with the Central Bank as at 31 December 2016 and 2015 is as follows:

	2016 AED'000	2015 AED'000
Cash on hand	86,448	95,783
Balances with the Central Bank:		
Current accounts	120,123	456,370
Reserve requirements with the Central Bank (note 9 (b))	402,405	364,583
International murabahat with the Central Bank	-	625,000
<b>Total</b>	<b>608,976</b>	<b>1,541,736</b>

The cash and balances with the Central Bank as at 31 December 2016 and 2015 were held within the U.A.E.

- (b) The reserve requirements are kept with the Central Bank in the respective local currency and US Dollar. These reserves are not available for use in the Bank's day to day operations, and can not be withdrawn without the approval of the Central Bank. The level of reserve required changes every month in accordance with the requirements of the respective Central Banks' directives. However, as per notice 4310/2008, the Central Bank has allowed banks to borrow up to 100% of their AED and US\$ reserve requirement limit. As at 31 December 2016, the statutory reserve with the Central Bank amounted to AED 402 million (31 December 2015: AED 365 million).

**10. Due from banks and other financial institutions**

- (a) The analysis of the Bank's due from banks and financial institutions as at 31 December 2016 and 2015 is as follows:

	2016 AED'000	2015 AED'000
Current accounts (Note 28)	77,704	86,371
Wakala deposits with banks	257,043	165,263
<b>Total</b>	<b>334,747</b>	<b>251,634</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**10. Due from banks and other financial institutions (continued)**

(b) The geographical analysis of the due from banks and financial institutions as at 31 December 2016 and 2015 is as follows:

	2016 AED'000	2015 AED'000
Within the U.A.E.	39,325	75,574
Outside the U.A.E.	295,422	176,060
<b>Total</b>	<b>334,747</b>	<b>251,634</b>

**11. Islamic financing and investing assets, net**

(a) The analysis of the Bank's Islamic financing and investing assets, net, as at 31 December 2016 and 2015 is as follows:

	2016 AED'000	2015 AED'000
<b>Islamic financing Assets</b>		
Vehicles murabahat	268,988	274,954
Commodities murabahat	4,790,245	4,354,797
<b>Total murabahat</b>	<b>5,059,233</b>	<b>4,629,751</b>
Ijarahs	6,839,087	5,867,261
Istisna'a	14,161	2,222
Islamic credit cards	40,391	40,249
	<b>11,952,872</b>	<b>5,909,732</b>
Deferred income	<b>(906,332)</b>	<b>(648,498)</b>
<b>Total Islamic financing assets</b>	<b>11,046,540</b>	<b>9,890,985</b>
<b>Islamic investing Assets</b>		
Musharakat	80,000	136,866
Mudaraba	1,001,640	737,067
Wakalat	606,243	610,290
<b>Total Islamic investing assets</b>	<b>1,687,883</b>	<b>1,484,223</b>
<b>Total Islamic financing and investing assets</b>	<b>12,734,423</b>	<b>11,375,208</b>
Provisions for impairment (Note 11(b))	<b>(361,888)</b>	<b>(244,423)</b>
<b>Total Islamic financing and investing assets, net</b>	<b>12,372,535</b>	<b>11,130,785</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**11. Islamic financing and investing assets, net (continued)**

- (b) The movements in the provision for impairment during the years ended 31 December 2016 and 2015 are as follows:

	<b>2016</b>	2015
	<b>AED'000</b>	AED'000
<i>Specific</i>		
<b>Balance at 1 January</b>	<b>96,101</b>	75,508
Charge for the year	<b>116,991</b>	20,633
Write-offs	<b>(15,073)</b>	(40)
<b>Balance at 31 December</b>	<b>198,019</b>	96,101
<i>Collective</i>		
<b>Balance at 1 January</b>	<b>148,322</b>	108,052
Charge for the year	<b>15,547</b>	40,270
<b>Balance at 31 December</b>	<b>163,869</b>	148,322
<b>Total specific and collective provision</b>	<b>361,888</b>	244,423

- (c) The Bank, in the ordinary course of providing finance, holds collateral as security to mitigate credit risk associated with Islamic financing and investing assets. The collaterals include mortgage on land and buildings and lien on savings and investment deposits and equity. The estimated value of collaterals for Islamic financing and investing assets other than retail assets which are mainly asset based financing, is as follows:

	<b>2016</b>	2015
	<b>AED'000</b>	AED'000
Property and mortgages	<b>4,863,788</b>	3,196,270
Deposits and equities	<b>1,867,796</b>	848,960

- (d) The fair value of collaterals that the Bank holds relating to facilities individually determined to be impaired at 31 December 2016 amounts to AED 116 million (2015: AED 52 million).
- (e) The gross amount of Islamic financing and investing assets, determined to be impaired at 31 December 2016 amounts to AED 384 million (2015: AED 142 million).

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**11. Islamic financing and investing assets, net (continued)**

(f) Analysis of Islamic financing and investing assets, net by industry group and geography as at 31 December 2016 and 2015 are as follows:

	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
<b>2016</b>			
<b>Economic sector</b>			
Government	47,167	131,196	178,363
Manufacturing and services	3,598,325	86,399	3,684,724
Trade	1,877,398	-	1,877,398
Financial institutions	50,797	-	50,797
Real estate	3,413,385	118,702	3,532,087
Consumer home finance	1,716,783	-	1,716,783
Consumer financing	1,694,251	20	1,694,271
	<u>12,398,106</u>	<u>336,317</u>	<u>12,734,423</u>
Provision for impairment (Note 11(b))			<u>(361,888)</u>
<b>Total</b>			<u><u>12,372,535</u></u>
<b>2015</b>			
<b>Economic sector</b>			
Government	1,582,264	12,283	1,594,547
Manufacturing and services	2,188,385	-	2,188,385
Trade	2,084,749	32,342	2,117,091
Financial institutions	339,667	177,492	517,159
Real estate	2,139,281	91,813	2,231,094
Consumer home finance	1,354,331	-	1,354,331
Consumer financing	1,372,601	-	1,372,601
	<u>11,061,278</u>	<u>313,930</u>	<u>11,375,208</u>
Provision for impairment (Note 11(b))			<u>(244,423)</u>
<b>Total</b>			<u><u>11,130,785</u></u>

**12. Investment securities**

	2016 AED'000	2015 AED'000
Held to maturity - sukuks (Note 12.1(a))	-	518,974
Available for sale - (Note 12.2(a))	1,852,453	362,635
	<u>1,852,453</u>	<u>881,609</u>

During the year, the Group reclassified the investments carried at held-to-maturity portfolio with carrying value of AED 997 million to the available-for-sale portfolio. As a result the Group can not classify any investment as held-to-maturity in the coming two financial years.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**12. Investment securities (continued)**

**12.1 Held to maturity**

- (a) The geographical analysis of the investment in held to maturity Sukuk as at 31 December 2016 and 2015 is as follows:

	2016 AED'000	2015 AED'000
Within the U.A.E.	-	352,227
Other G.C.C. Countries	-	166,747
<b>Total</b>	<b>-</b>	<b>518,974</b>

- (b) Analysis of investment in held to maturity sukuk by industry group as at 31 December 2016 and 2015 is as follows:

	2016 AED'000	2015 AED'000
Government	-	259,487
Manufacturing and services	-	167,540
Real estate	-	91,947
<b>Total</b>	<b>-</b>	<b>518,974</b>

- (c) At 31 December 2016, the quoted market price of the held to maturity Sukuk was AED Nil (31 December 2015: AED 512 million) and the Group expects to receive cash flows of AED Nil (31 December 2015: AED 514 million) from the redemption of the held to maturity Sukuk on maturity.

**12.2 Available for sale**

- (a) The geographical analysis of the available for sale investments as at 31 December 2016 and 2015 is as follows:

	2016 AED'000	2015 AED'000
Within the U.A.E.	637,681	158,316
Other G.C.C. Countries	521,398	165,325
Rest of the World	693,374	38,994
<b>Total</b>	<b>1,852,453</b>	<b>362,635</b>



**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**12. Investment securities (continued)**

**12.2 Available for sale (continued)**

- (b) Analysis of investment in available for sale sukuk by industry group as at 31 December 2016 and 2015 is as follows:

	2016 AED'000	2015 AED'000
Government	1,511,806	165,325
Manufacturing and services	50,000	-
Real Estate	120,277	-
Financial institutions	170,370	197,310
<b>Total</b>	<b>1,852,453</b>	<b>362,635</b>

- (c) During the year ended 31 December 2016, the Group recognized fair value gain on available for sale investments of AED 28 million in the investment fair value reserve (31 December 2015: fair value gain AED 10 million).

**13. Investment property**

- (a) Movement in investment properties during the years ended 31 December 2016 and 2015 is as follows:

	Properties under construction AED'000	Other real estate AED'000	Total AED'000
<b>2016</b>			
<b>Balance at 1 January 2016</b>	78,000	-	78,000
Additions during the year	63,637	129,800	193,437
Transfer on completion of construction	(114,039)	114,039	-
Increase in fair value during the year	-	50,961	50,961
<b>Balance at 31 December 2016</b>	<b>27,598</b>	<b>294,800</b>	<b>322,398</b>
<b>2015</b>			
Balance at 1 January 2015	52,000	-	52,000
Additions during the year	21,015	-	21,015
Increase in fair value during the year	4,985	-	4,985
<b>Balance at 31 December 2015</b>	<b>78,000</b>	<b>-</b>	<b>78,000</b>

All of the Group's investment properties are held under free hold interest and located in the U.A.E.

- (b) The fair value of the Group's investment properties as at 31 December 2016 is AED 322 million (2015: AED 78 million). The fair value is mainly based on unobservable market inputs (i.e. Level 3). The valuations were carried out by professional valuers not related to the Bank who held recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.
- (c) The Group acquired investment properties with a fair value of AED 130 million from a related party. An independent professional valuation firm with relevant professional qualifications and recent experience in the location and category of the investment properties being valued, which was not related to the Group, undertook the valuation for the purposes of the acquisition.

Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)

14. Property and equipment

Cost	Leasehold improvements AED'000	Furniture, fittings and equipment AED'000	Vehicles AED'000	Computer equipment and software AED'000	Capital work in progress AED'000	Land and buildings AED'000	Total AED'000
<b>At 1 January 2015</b>	41,495	21,569	1,201	40,407	23,769	-	128,441
Additions	12,938	2,064	246	15,397	(12,860)	97,216	115,001
Write-off	(1,959)	-	-	-	-	-	(1,959)
<b>At 31 December 2015</b>	52,474	23,633	1,447	55,804	10,909	97,216	241,483
Additions	1,700	427	-	3,323	7,730	2,099	15,279
Transfers	3,349	4,283	-	5,040	(12,672)	-	-
Disposals	-	-	(272)	-	-	-	(272)
Write-off	-	-	-	-	(96)	-	(96)
<b>At 31 December 2016</b>	57,523	28,343	1,175	64,167	5,871	99,315	256,394
<b>Accumulated depreciation</b>							
<b>At 1 January 2015</b>	31,519	17,490	749	34,835	-	-	84,593
Charge for year	7,147	2,044	190	6,335	-	1,166	16,882
Write-off	(463)	-	-	-	-	-	(463)
<b>At 31 December 2015</b>	38,203	19,534	939	41,170	-	1,166	101,012
Charge for year	4,162	1,932	162	7,207	-	1,554	15,017
Disposals	-	-	(272)	-	-	-	(272)
<b>At 31 December 2016</b>	42,365	21,466	829	48,377	-	2,720	115,757
<b>Net book value</b>							
<b>At 31 December 2016</b>	15,158	6,877	346	15,790	5,871	96,595	140,637
At 31 December 2015	14,271	4,099	508	14,634	10,909	96,050	140,471

\* Capital work in progress comprises cost incurred on IT projects.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**15. Other assets**

	<b>2016</b>	2015
	<b>AED'000</b>	AED'000
Accrued income on Islamic financing and investing assets	<b>52,171</b>	42,624
Assets acquired in settlement of Islamic financing and investing assets	<b>23,684</b>	-
Accrued income on investment securities	<b>12,457</b>	7,812
Prepaid expenses	<b>19,028</b>	18,467
Staff advances	<b>11,928</b>	10,115
Acceptances (Note 18)	<b>167,842</b>	158,303
Other	<b>82,720</b>	60,092
	<b>369,830</b>	297,413

**16. Islamic customers' deposits**

(a) The analysis of the Islamic customers' deposits as at 31 December 2016 and 2015 is as following:

	<b>2016</b>	2015
	<b>AED'000</b>	AED'000
Current accounts	<b>1,716,175</b>	1,638,524
<i>Mudarba deposits:</i>		
Savings accounts	<b>175,223</b>	156,122
Term deposits	<b>96,892</b>	145,895
	<b>1,988,290</b>	1,940,541
Wakala deposits	<b>8,903,940</b>	8,869,670
Escrow accounts	<b>111,215</b>	100,390
Margin accounts	<b>94,451</b>	101,525
	<b>11,097,896</b>	11,012,126

All Islamic customers' deposits as at 31 December 2016 and 2015 were held within the U.A.E.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**17. Due to banks and other financial institutions**

- (a) The analysis of the due to banks and other financial institutions as at 31 December 2016 and 2015 is as following:

	<b>2016</b> <b>AED'000</b>	2015 AED'000
Investment deposits	<b>2,542,472</b>	1,817,888
<b>Total</b>	<b>2,542,472</b>	1,817,888

- (b) The geographical analysis of the Bank's due to banks and other financial institutions as at 31 December 2016 and 2015 is as follows:

	<b>2016</b> <b>AED'000</b>	2015 AED'000
Within the U.A.E.	<b>1,946,425</b>	1,487,363
Outside the U.A.E.	<b>596,047</b>	330,525
<b>Total</b>	<b>2,542,472</b>	1,817,888

**18. Other liabilities**

	<b>2016</b> <b>AED'000</b>	2015 AED'000
Accrued profit on Islamic customers' deposits and placements by banks	<b>93,247</b>	53,190
Provisions for staff salaries benefits	<b>19,219</b>	11,484
Managers' cheques	<b>45,193</b>	21,061
Acceptances (Note 15)	<b>167,842</b>	158,303
Other	<b>24,276</b>	16,747
	<b>349,777</b>	260,785

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**19. Share capital**

	2016 AED'000	2015 AED'000
<i>Issued and fully paid:</i>		
1,623,500,000 (31 December 2015: 1,050,000,000) shares of AED 1 each	<u>1,623,500</u>	<u>1,050,000</u>

At the general assembly, the shareholders approved the increase in the Bank's issued share capital from AED 1,123,500,000 to AED 1,623,500,000 by way of a rights issue of 500,000,000 shares at an issue price of AED 1.35 per new share, reflecting the nominal value of AED 1 per new share and a share premium of 35 fils per share. During the year, the Bank completed the process of issuing 500,000,000 shares for AED 675,000,000.

As required by the Company Law No. 2 of 2015, the share premium of AED 175,000,000 relating to the rights issue was added to the statutory reserve.

**20. Statutory reserve**

The U.A.E. Commercial Companies Law and the Articles of Association of the Bank, require that 10% of the profit attributable to the shareholders is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

**21. Dividends paid**

As of the date of approving the consolidated financial statements, the Board of Directors' proposed dividends has been submitted to the Central Bank of the U.A.E. for its approval.

At the Annual General Meeting of the shareholders held on 13 April 2016, the shareholders approved a stock dividend in respect of the year ended 31 December 2015 at 7% (31 December 2014: 5%) of the share capital amounting to AED 73.5 million (31 December 2014: AED 50 million), accordingly the share capital was increased by the amount of stock dividend. Further AED 2.5 million as Directors' remuneration was also approved.

**22. Income from Islamic financing and investing assets**

	2016 AED'000	2015 AED'000
Income from Murabaha	247,723	218,362
Income from Ijarah	266,611	215,539
Income from Mudaraba	37,213	39,075
Income from Wakala	3,500	8,532
Income from Mushraka	5,433	6,773
Income from Istisna financing	302	8
	<u>560,782</u>	<u>488,289</u>

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**23. Income from investment securities**

	2016 AED'000	2015 AED'000
Income from available for sale Sukuk	19,855	9,341
Realized gain on disposal of available for sale Sukuk	42,324	3,308
Income from held to maturity Sukuk	21,599	18,280
<b>Total</b>	<b>83,778</b>	<b>30,929</b>

**24. Fees, commission and other income**

	2016 AED'000	2015 AED'000
Trade related commission and fees	7,951	9,963
Foreign exchange income	9,453	6,375
Deposit and credit card fees	11,733	12,173
Processing and evaluation fees	25,238	27,637
Arrangement fee	13,269	14,436
Income from investment properties	52,863	-
Other	12,037	9,085
<b>Total</b>	<b>132,544</b>	<b>79,669</b>

**25. Staff costs**

	2016 AED'000	2015 AED'000
Salaries and allowances	114,451	108,429
Other staff related cost	64,225	55,299
	<b>178,676</b>	<b>163,728</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**26. General and administrative expenses**

	2016 AED'000	2015 AED'000
Rental expenses	12,153	11,412
Communication expenses	4,058	3,872
Software license	3,966	4,465
Premises and equipment maintenance costs	3,926	3,706
Legal and professional fees	3,176	1,403
Security services including cash in transit services	3,062	2,890
Marketing, designing and product development expenses	2,994	3,933
Consultancy expenses	2,525	2,039
Printing and stationary	2,272	2,543
Other	13,270	16,485
	<u>51,402</u>	<u>52,748</u>

**27. Earnings per share**

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

	2016	2015
<i>Earnings per share</i>		
Profit for the year ended (AED'000)	125,545	122,075
Directors' remuneration (AED'000)	(2,500)	(1,426)
Profit for the year after Directors' remuneration	<u>123,045</u>	<u>120,649</u>
Weighted average number of shares outstanding at 1 January (AED'000)	1,050,000	1,000,000
Effect of bonus shares issued (AED'000)		
Bonus shares issued in 2015	-	50,000
Bonus shares issued in 2016	73,500	73,500
Effect of right issue of shares (AED'000)		
Bonus element	-	111,518
New shares issued (weighted average)	319,558	-
Weighted average number of shares outstanding at 31 December (AED'000)	<u>1,443,058</u>	<u>1,235,018</u>
<b>Earnings per share (AED)</b>	<u>0.085</u>	<u>0.098</u>

As at 31 December 2016 and 2015, there were no potential dilutive shares outstanding.

The weighted average number of ordinary shares in issue throughout the year ended 31 December 2015 has been adjusted to reflect the bonus shares issued during the year ended 31 December 2016.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**28. Cash and cash equivalents**

	<b>2016</b> <b>AED'000</b>	2015 AED'000
Cash and balances with the Central Banks (Note 9)	<b>608,976</b>	1,541,736
Due from banks and financial institutions (Note 10)	<b>77,704</b>	86,371
Investment securities (Note 12) - Highly liquid investments with original maturity less than three months	<b>664,054</b>	165,325
	<b>1,350,734</b>	1,793,432
Less: Statutory deposit with Central Banks (Note 9)	<b>(402,405)</b>	(364,583)
	<b>948,329</b>	1,428,849

**29. Related parties transactions**

- (a) 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.
- (b) The Group is controlled by Ajman Government who own 26% (2015: 25%) of the issued and paid capital.
- (c) The Group acquired investment properties with a fair value of AED 130 million from a related party.

**Transactions**

Transactions with related parties are shown below:

	<b>Major shareholders AED'000</b>	<b>2016 Director and other related parties AED'000</b>	<b>Total AED'000</b>	<b>Major shareholders AED'000</b>	<b>2015 Director and other related parties AED'000</b>	<b>Total AED'000</b>
Depositors' share of profit	<b>57,786</b>	<b>1,376</b>	<b>59,162</b>	45,715	769	46,484
Income from Islamic financing and investing assets	<b>42,734</b>	<b>4,149</b>	<b>46,883</b>	37,082	4,183	41,265
Rental expenses	<b>-</b>	<b>1,660</b>	<b>1,660</b>	824	638	1,462



**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**29. Related parties transactions (continued)**

*Balances*

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

	2016			2015		
	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	778,420	68,355	846,775	1,439,136	92,638	1,531,774
Customers' deposits	2,218,820	80,259	2,299,079	2,875,728	44,401	2,920,129
Other assets (advances)	-	26,900	26,900	-	-	-

*Compensation of management personnel*

Key management compensation is as shown below:

	2016 AED'000	2015 AED'000
Short term employment benefits	18,631	17,883
Terminal benefits	1,068	1,015
Total	19,699	18,898

**30. Contingencies and commitments**

*Capital commitments*

At 31 December 2016, the Group had outstanding capital commitments of AED 70 million (31 December 2015: AED 55 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.

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

	2016 AED'000	2015 AED'000
Commitments to extend credit	1,044,126	884,655
Letters of credit	51,014	94,195
Letters of guarantee	486,778	451,315
	1,581,918	1,430,165

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 31. Segment analysis

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Executive Committee (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance.

The Group has three main business segments:

- Retail banking - incorporating private customer current accounts, savings accounts, deposits, credit and debit cards, personal finance and house mortgage;
- Corporate banking - incorporating transactions with corporate bodies including government and public bodies and comprising of Islamic financing and investing assets, deposits and trade finance transactions; and
- Treasury - incorporating activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the Central Bank of the UAE, none of which constitute a separately reportable segment.

As the Group's segment operations are all financial with a majority of revenues deriving income from Islamic financing and investing assets and the Executive Committee relies primarily on net income to assess the performance of the segment, the total income and expense for all reportable segments is presented on a net basis.

The Group's management reporting is based on a measure of operating profit comprising income from Islamic financing and investing assets, impairment charges on Islamic financing and investing assets, net fee and commission income, other income and expenses.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet items.

### Segment results of operations

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

At 31 December 2016	Retail banking AED'000	Corporate banking AED'000	Treasury AED'000	Other AED'000	Total AED'000
Net income from Islamic financing and investing assets	98,392	179,992	10,559	-	288,943
Income from investment securities	-	-	83,778	-	83,778
Impairment charges on Islamic financing and investing assets	(32,044)	(104,389)	1,808	-	(134,625)
Net fee and other income	25,396	35,780	18,505	52,863	132,544
Staff cost	(56,741)	(19,950)	(3,677)	(98,308)	(178,676)
General and administrative expenses	(22,913)	(2,632)	(3,798)	(22,059)	(51,402)
Depreciation of property and equipment	-	-	-	(15,017)	(15,017)
<b>Operating profit/(loss)</b>	<b>12,090</b>	<b>88,801</b>	<b>107,175</b>	<b>(82,521)</b>	<b>125,545</b>
<b>Segment assets</b>	<b>3,775,246</b>	<b>9,136,576</b>	<b>1,848,584</b>	<b>1,241,170</b>	<b>16,001,576</b>
<b>Segment liabilities</b>	<b>2,067,964</b>	<b>11,159,580</b>	<b>391,417</b>	<b>371,184</b>	<b>13,990,145</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**31. Segment analysis (continued)**

**Segment results of operations (continued)**

<b>At 31 December 2015</b>	<b>Retail banking AED'000</b>	<b>Corporate banking AED'000</b>	<b>Treasury AED'000</b>	<b>Other AED'000</b>	<b>Total AED'000</b>
Net income from Islamic financing and investing assets	101,236	198,820	10,732	232	311,020
Income from investment securities	-	-	30,929	-	30,929
Impairment charges on Islamic financing and investing assets	(35,773)	(23,790)	(6,622)	-	(66,185)
Net fee and other income	21,892	47,146	5,645	4,986	79,669
Staff cost	(61,870)	(17,183)	(2,532)	(82,143)	(163,728)
General and administrative expenses	(20,460)	(2,746)	(3,102)	(26,440)	(52,748)
Depreciation of property and equipment	-	-	-	(16,882)	(16,882)
<b>Operating (loss)/profit</b>	<b>5,025</b>	<b>202,247</b>	<b>35,050</b>	<b>(120,247)</b>	<b>122,075</b>
<b>Segment assets</b>	<b>2,836,160</b>	<b>8,546,258</b>	<b>1,664,684</b>	<b>1,274,546</b>	<b>14,321,648</b>
<b>Segment liabilities</b>	<b>1,439,111</b>	<b>11,366,484</b>	<b>4,416</b>	<b>280,788</b>	<b>13,090,799</b>

*Revenue from major products and services*

Revenue from major products and services are disclosed in Notes 22 in the consolidated financial statements.

*Information about major customers*

No single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2016 and 2015.

**32. Maturity profile of financial liabilities**

	<b>Up to 1 year AED'000</b>	<b>2016 1 - 5 years AED'000</b>	<b>Total AED'000</b>
Islamic customers' deposits	11,031,896	66,000	11,097,896
Due to banks and other financial institutions	1,697,798	844,674	2,542,472
Other liabilities	93,247	-	93,247
	<b>12,822,941</b>	<b>910,674</b>	<b>13,733,615</b>
Commitments and contingent liabilities	<b>1,497,627</b>	<b>84,291</b>	<b>1,581,918</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)**

**32. Maturity profile of financial liabilities (continued)**

	2015		Total AED'000
	Up to 1 year AED'000	1 - 5 years AED'000	
Islamic customers' deposits	10,931,126	81,000	11,012,126
Due to banks and other financial institutions	330,525	1,487,363	1,817,888
Other liabilities	53,190	-	53,190
	<u>11,314,841</u>	<u>1,568,363</u>	<u>12,883,204</u>
Commitments and contingent liabilities	<u>1,316,696</u>	<u>113,469</u>	<u>1,430,165</u>

**33. Subsidiaries**

In addition to above, the Bank further carries out placement activities with different special purpose entities (SPE) which have been consolidated in these consolidated financial statements in compliance with IFRS 10.

Below is a list of the subsidiaries consolidated by the Bank based on an assessment of control as follows:

Name of Subsidiary	Proportion of ownership interest		Country of incorporation	Principal activities
	2016	2015		
Ajman Assets Management	100%	100%	UAE	SPE for trading purposes
Ajman Capital Investment	100%	100%	UAE	SPE for investment purposes
Ajman Development FZE	100%	100%	UAE	SPE for trading purposes
Ajman Cars L.L.C.	100%	100%	UAE	SPE for trading purposes

The SPEs were registered in the Free Zone Authority of Ajman in the name of Ajman Government.

During the year an amount of AED 135 million (2015: AED nil) was placed during the year ended 31 December 2016, into Ajman Cars L.L.C. a subsidiary which was incorporated on 17 November 2015, with the Bank owning 99% of the legal share capital and 100% of the beneficial ownership.

**34. Social contributions**

The social contribution (including donations and charities) made during the year amounted to AED 1.5 million (2015: AED 17 thousands).

**35. Approval of consolidated financial statements**

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 26 January 2017.

