Ajman Bank PJSC

Report and consolidated financial statements for the year ended 31 December 2017

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 2017

Contents

Deloitte & Touche (M.E.)
Building 3, Level 6
Emaar Square
Downtown Dubai
P.O. Box 4254
Dubai
United Arab Emirates

Tel: +971 (0) 4 376 8888
Fax:+971 (0) 4 376 8899
www.deloitte.com

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 2017, 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 and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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. 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.

Cont'd...

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
Impairment on Islamic financing and investing assets	
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 76% of total assets) and the related estimation uncertainty, we consider this a key audit matter. 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. 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. 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. 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.	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. 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: ▪ System-based and manual controls over the timely recognition of impaired Islamic financing and investing assets; ▪ Controls over the impairment calculation models; and ▪ Governance controls, including reviewing key meetings that form part of the approval process for Islamic financing and investing assets impairment allowances. We tested a sample of Islamic financing and investing assets to assess whether impairment events had been identified in a timely manner. 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. . 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Valuation of Investment Instruments	
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 9% of total assets of the Group at 31 December 2017. 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. 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.	Our audit procedures included testing the design and operating effectiveness of relevant controls in the Group's investment instruments valuation process. 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. 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).

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 express any form of assurance conclusion thereon.

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

If, based on the work we have performed 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 Committee are responsible for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 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.

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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:

- we have obtained all the information we considered necessary for the purposes of our audit;
- 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;
- the Group has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Group's books of account;
- note 12 to the consolidated financial statements of the Group discloses its investments in equity instruments during the financial year ended 31 December 2017;
- 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;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2017; and
- note 34 to the consolidated financial statements discloses social contributions made during the financial year ended 31 December 2017.

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

Musa Ramahi
Registration No. 872
18 January 2018
Dubai
United Arab Emirates

Ajman Bank PJSC

Consolidated statement of financial position as at 31 December 2017

	Notes	2017 AED'000	2016 AED'000
ASSETS			
Cash and balances with the Central Bank	9	**1,378,410**	608,976
Due from banks and other financial institutions	10	**601,504**	334,747
Islamic financing and investing assets, net	11	**15,158,872**	12,372,535
Investment securities	12	**1,912,254**	1,852,453
Other assets	15	**259,922**	369,830
Investment properties	13	**580,448**	322,398
Property and equipment	14	**136,244**	140,637
Total assets		**20,027,654**	16,001,576
LIABILITIES AND EQUITY			
Liabilities			
Islamic customers' deposits	16	**14,323,879**	11,097,896
Due to banks and other financial institutions	17	**3,362,702**	2,542,472
Other liabilities	18	**230,615**	349,777
Total liabilities		**17,917,196**	13,990,145
Equity			
Share capital	19	**1,680,323**	1,623,500
Statutory reserve	20	**227,725**	214,464
Investment fair value reserve		**(65,206)**	(34,119)
Retained earnings		**267,616**	207,586
Total equity		**2,110,458**	2,011,431
Total liabilities and equity		**20,027,654**	16,001,576

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.

Ajman Bank PJSC

Consolidated income statement
for the year ended 31 December 2017

	Notes	2017 AED'000	2016 AED'000
Operating income			
Income from Islamic financing and investing assets	22	**681,630**	560,782
Income from investment securities	23	**86,589**	83,778
Fees, commission and other income	24	**149,084**	132,544
Total operating income before depositors' share of profit		**917,303**	777,104
Depositors' share of profits		**(351,604)**	(271,839)
Net operating income		**565,699**	505,265
Expenses			
Staff costs	25	**(168,401)**	(178,676)
General and administrative expenses	26	**(52,045)**	(51,402)
Depreciation of property and equipment	14	**(16,842)**	(15,017)
Impairment charge for Islamic financing and investing assets	11	**(195,030)**	(132,538)
Impairment charge on other receivables		**(767)**	(2,087)
Total expenses		**(433,085)**	(379,720)
Profit for the year		**132,614**	125,545
Earnings per share (AED)	27	**0.077**	0.082

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 2017

	2017 AED'000	2016 AED'000
Profit for the year	**132,614**	125,545
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss		
Available-for-sale investments		
Fair value (loss)/gain on available-for-sale investments	**(23,546)**	27,580
Reclassification adjustments relating to available-for-sale financial assets disposed of during the year	**(7,541)**	(42,324)
Other comprehensive loss for the year	**(31,087)**	(14,744)
Total comprehensive income for the year	**101,527**	110,801

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

Consolidated statement of changes in equity
for the year ended 31 December 2017

	Share capital AED'000	Statutory reserve AED'000	Investment fair value reserve AED'000	Retained earnings AED'000	Total AED'000
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	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)
At 31 December 2016	**1,623,500**	**214,464**	**(34,119)**	**207,586**	**2,011,431**
At 1 January 2017	1,623,500	214,464	(34,119)	207,586	2,011,431
Profit for the year	-	-	-	132,614	132,614
Other comprehensive loss	-	-	(31,087)	-	(31,087)
Total comprehensive income for the year	-	-	(31,087)	132,614	101,527
Transfer to statutory reserve	-	13,261	-	(13,261)	-
Stock dividends (Note 21)	56,823	-	-	(56,823)	-
Directors' remuneration (Note 21)	-	-	-	(2,500)	(2,500)
At 31 December 2017	**1,680,323**	**227,725**	**(65,206)**	**267,616**	**2,110,458**

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

Consolidated statement of cash flows
for the year ended 31 December 2017

	Note	2017 AED'000	2016 AED'000
Cash flow from operating activities			
Profit for the year		**132,614**	125,545
Adjustments for:			
Depreciation of property and equipment		**16,842**	15,017
Impairment charge on Islamic financing, investing assets and other receivables		**195,797**	134,625
Income from investment securities		**(79,048)**	(41,454)
Property and equipment written off		**-**	96
Fair value adjustment of investment properties		**(5,635)**	(50,961)
Realized gain on disposal of investment securities		**(7,541)**	(42,324)
Gain on disposal of property and equipment		**-**	(23)
Operating cash flows before changes in operating assets and liabilities		**253,029**	140,521
Changes in operating assets and liabilities:			
Increase in Islamic financing and investing assets		**(2,981,367)**	(1,374,288)
Increase in due from banks and other financial institutions		**(207,060)**	(91,780)
Increase in statutory deposit with the Central Bank		**(141,648)**	(37,822)
Decrease/(increase) in other assets		**109,141**	(74,504)
Increase in Islamic customers' deposits		**3,225,983**	85,770
Increase in due to banks and other financial institutions		**820,230**	724,584
(Decrease)/increase in other liabilities		**(119,162)**	88,992
Cash generated from/(used in) operations		**959,146**	(538,527)
Payment of directors' remunerations		**(2,500)**	(2,500)
Net cash generated from/(used in) operating activities		**956,646**	(541,027)
Cash flows from investing activities			
Purchase of investment securities		**(3,448,076)**	(3,798,735)
Proceeds from sale of investment securities		**2,700,675**	3,352,739
Purchase of property and equipment		**(12,449)**	(15,279)
Proceeds from disposal of property and equipment		**-**	23
Profit income received from investment securities		**79,048**	42,915
Additions to investment properties		**(252,415)**	(193,437)
Net cash used in investing activities		**(933,217)**	(611,774)
Cash flows from financing activities			
Issuance of share capital		**-**	675,000
Issuance cost of share capital		**-**	(2,719)
Net cash generated from financing activities		**-**	672,281
Net increase/(decrease) in cash and cash equivalents		**23,429**	(480,520)
Cash and cash equivalents at the beginning of the year		**948,329**	1,428,849
Cash and cash equivalents at the end of the year	28	**971,758**	948,329

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

Notes to the consolidated financial statements for the year ended 31 December 2017

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 registered address of the Bank is P.O. Box 7770, Ajman, United Arab Emirates ("UAE"). The Bank was legally incorporated on 17 April 2008 and was registered with the Securities and Commodities Authority ("SCA") on 12 June 2008 and obtained a license from the Central Bank of the UAE to operate as a Head Office on 14 June 2008. On 1 December 2008, the Bank obtained a branch banking license from UAE Central Bank and commenced its operations on 22 December 2008.

In addition to its main office in Ajman, the Bank operates through eight branches and one pay office in the UAE. The 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 ("IFRSs")

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these consolidated financial statements. The application of these revised IFRSs 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.

- Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses.
- Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 *Disclosure of Interests in Other Entities.*

2.2 New and revised IFRSs in issue but not yet effective

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

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Associates and Joint Ventures (2011).*	1 January 2018

2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to IFRS 2 *Share-Based Payment* regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contracts standard.	1 January 2018
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
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) 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.	1 January 2018

2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014) (continued)	1 January 2018

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.
- **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.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 15 *Revenue from Contracts with Customers* In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	1 January 2018
Amendments to IFRS 15 *Revenue from Contracts* with Customers 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
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.	1 January 2019

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRIC 23 *Uncertainty over Income Tax Treatments* The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	1 January 2019
IFRS 16 *Leases* 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.	1 January 2019
Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019

2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

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

New and revised IFRSs	**Effective for annual periods beginning on or after**
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.	1 January 2021
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

The IASB issued the final version of IFRS 9 Financial Instruments in July 2014 that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date from 1 January 2018. The Group will avail of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment change. Differences in the carrying amounts of financial assets resulting from the impairment assessment as required by IFRS 9 will be recognised in opening retained earnings and reserves as at 1 January 2018.

During the year 2017, the Group has performed a detailed impact assessment of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group, until the Group presents its first financial statements that include the date of initial application.

2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

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

(a) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: measured at Amortised Cost, Fair Value through Other Comprehensive Income ("FVOCI") (with and without recycling of gains or losses to profit or loss on derecognition of debt and equity instruments, respectively) and Fair Value Through Profit or Loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for-sale.

The Group has evaluated the classification and measurement criteria to be adopted for various financial assets considering the IFRS 9 requirements with respect to the business model and contractual cash flow characteristics ("CCC") / Solely payment of principal and interest ("SPPI").

The Group does not expect a significant impact on its consolidated statement of financial position from applying the classification and measurement requirements of IFRS 9.

Debt securities, currently classified as "available-for-sale", are expected to be measured at FVTOCI under IFRS 9 as the Group expects to hold these assets under the business model to collect contractual cash flows or to sell a significant amount on a relatively frequent basis.

Islamic Financing and Investing assets will continue to be held under the business model to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and profit. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

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

IFRS 9 Financial Instruments (continued)

(b) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

Under IFRS 9, the impairment requirements apply to financial assets measured at amortised cost, debt instruments classified as fair value through other comprehensive income and certain loan commitments and financial guarantee contracts. At initial recognition, allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

The Group has assessed the impairment provisions under IFRS 9 based on a set of inputs and assumptions that include available forward-looking information as economic inputs, significant credit deterioration parameters, Probability of Default ("PD"), Loss Given Default ("LGD"), Exposure At Default ("EAD"). It requires the Group to record expected credit losses on all of its debt securities, Islamic financing and investing assets, either on a 12-month or lifetime basis. Accordingly, the estimated impact of adopting IFRS 9 will result in an overall reduction in the Group's total shareholders' equity of approximately 3.1%. The Group has estimated the impact of adopting IFRS 9 by running their calculation on 31 December 2017 figures.

For financial guarantee contracts, the Group will estimate the lifetime ECLs after assessing the significant increase in the credit risk based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party.

(c) Hedge accounting

The hedging requirements of IFRS 9 are not expected to have a significant impact on Group's consolidated financial statements.

(d) Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group's assessment included an analysis to identify data gaps against current process and the Group has implemented the system and controls changes that it believes are necessary to capture the required data.

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.

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).

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 properties 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.

(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:

4. Significant accounting policies (continued)

(c) Basis of consolidation (continued)

- 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 raising 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 of 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.

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.

4. Significant accounting policies (continued)

(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: 'available-for-sale investment' and 'Islamic financing and investing assets'. 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 financing and investment instruments 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 financing and investment instruments, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

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. Financing and receivables (including cash and cash equivalents, Islamic finance receivables, due from banks and other financial institutions, 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.

4. Significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

Islamic derivative financial instruments

The Group deals with derivatives such as foreign currency forward contracts in Sharia complaint products. Islamic derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated income statement depends on the nature of the hedge relationship. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

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 customer 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.

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 financing for the proceeds received.

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

4. Significant accounting policies (continued)

(f) Financial instruments (continued)

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.

(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.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

4. Significant accounting policies (continued)

(g) Property and equipment (continued)

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.

(h) Investment properties

Investment properties is held to earn rental income and/or capital appreciation. Investment properties includes cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment properties 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 properties 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 properties is based on the nature, location and condition of the specific asset.

4. Significant accounting policies (continued)

(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.

(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.

4. Significant accounting policies (continued)

(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.

(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.

4. Significant accounting policies (continued)

(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.

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.

Investment properties

The carrying amount of investment properties 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.

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.

6. Financial risk management (continued)

6.1 Risk management structure (continued)

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.

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. Financial risk management (continued)

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.

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.

6. Financial risk management (continued)

6.3 Credit risk and concentrations of risk (continued)

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.

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**	**GCC**	**Other**	**Total**
2017	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	**1,293,782**	**-**	**-**	**1,293,782**
Due from banks and other financial institutions	**441,727**	**75,734**	**84,043**	**601,504**
Islamic financing and investing assets:				
- Retail	**4,015,541**	**6,577**	**-**	**4,022,118**
- Corporate	**10,919,201**	**133,531**	**274,280**	**11,327,012**
- Treasury	**2,703**	**-**	**-**	**2,703**
- Investments	**354,655**	**-**	**-**	**354,655**
Investment securities:				
- Available-for-sale	**1,140,277**	**742,657**	**29,320**	**1,912,254**
Total	**18,167,886**	**958,499**	**387,643**	**19,514,028**

Ajman Bank PJSC

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

6. Financial risk management (continued)

6.3 Credit risk and concentrations of risk (continued)

Concentration of credit risk (continued)

By geographic location (continued)

On balance sheet items

2016	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
Cash and balances with Central Bank	522,528	-	-	522,528
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
Total	13,604,722	795,127	1,044,302	15,444,151

Off balance sheet items

2017	**UAE AED'000**	**GCC AED'000**	**Other AED'000**	**Total AED'000**
Commitments	**763,109**	**207,462**	**8,289**	**978,860**
Letters of credit and guarantee	**550,959**	**-**	**-**	**550,959**
Total	**1,314,068**	**207,462**	**8,289**	**1,529,819**

2016	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
Commitments	881,165	154,159	8,802	1,044,126
Letters of credit and guarantee	537,792	-	-	537,792
Total	1,418,957	154,159	8,802	1,581,918

6. Financial risk management (continued)

6.3 Credit risk and concentrations of risk (continued)

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:

	2017 AED'000	2016 AED'000
Neither past due nor impaired	**13,575,557**	11,502,157
Past due but not impaired	**1,520,732**	848,144
Impaired	**610,199**	384,122
	15,706,488	12,734,423
Less: Provision for impairment	**(547,616)**	(361,888)
	15,158,872	12,372,535

	2017 AED'000	2016 AED'000
Neither past due nor impaired:		
AAA-BBB	**7,912,683**	6,515,529
BB-B	**1,159,851**	1,455,782
Not rated	**4,503,023**	3,530,846
	13,575,557	11,502,157
Past due but not impaired:		
AAA-BBB	**369,294**	265,214
BB-B	**387,867**	159,180
Not rated	**763,571**	423,750
	1,520,732	848,144
Impaired:		
Sub standard	**156,988**	84,731
Doubtful	**110,801**	55,451
Loss	**342,410**	243,940
	610,199	384,122

6. Financial risk management (continued)

6.3 Credit risk and concentrations of risk (continued)

Credit quality (continued)

Individually impaired by industry sectors

	Overdue			
	90 - 120 days AED'000	**120 - 180 days AED'000**	**More than 180 days AED'000**	**Total AED'000**
2017				
Personal	**4,374**	**9,944**	**118,964**	**133,282**
Manufacturing	**104,207**	**38,562**	**121,196**	**263,965**
Trade	**-**	**-**	**64,152**	**64,152**
Services	**7,341**	**-**	**139,158**	**146,499**
Other	**-**	**-**	**2,301**	**2,301**
Total	**115,922**	**48,506**	**445,771**	**610,199**

	Overdue			
	90 - 120 days AED'000	120 - 180 days AED'000	More than 180 days AED'000	Total AED'000
2016				
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
Total	23,007	100,640	260,475	384,122

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:

	2017 AED'000	2016 AED'000
Past due up to 30 days	**572,434**	495,380
Past due 31 to 60 days	**237,783**	139,417
Past due 61 to 90 days	**710,515**	213,347
	1,520,732	848,144

Notes to the consolidated financial statements for the year ended 31 December 2017 (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:

	2017 AED'000	2016 AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash and balances with Central Bank	**1,293,782**	522,528
Due from banks and other financial institutions	**601,504**	334,747
Islamic financing and investing assets	**15,706,488**	12,734,423
Investment securities	**1,912,254**	1,852,453
Other assets	**146,692**	64,628
	19,660,720	15,508,779
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingencies and commitments	**1,529,819**	1,581,918

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 2017 (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 2017 AED'000	2016 AED'000	Collaterals 2017 AED'000	2016 AED'000
Individually impaired				
Property	**141,205**	135,103	**128,432**	115,476
Other	**468,994**	249,019	**-**	-
Gross amount	**610,199**	384,122	**128,432**	115,476
Impairment loss	**(342,931)**	(198,019)	**-**	-
Carrying amount	**267,268**	186,103	**128,432**	115,476
Past due but not impaired				
Pledged deposits	**12,559**	73,928	7,300	15,644
Property	**999,534**	267,336	986,116	257,668
Other	**508,639**	506,880	-	-
Gross amount	**1,520,732**	848,144	**993,416**	273,312
Carrying amount	**1,520,732**	848,144	**993,416**	273,312
Neither past due nor impaired				
Pledged deposits	**1,848,123**	1,886,253	1,846,588	1,713,480
Debt/Equity securities	**367,489**	20,797	367,489	20,797
Property	**5,498,564**	4,530,832	5,178,375	4,490,644
Other	**5,861,381**	5,064,275	-	-
Gross amount	**13,575,557**	11,502,157	**7,392,452**	6,224,921
Collective impairment provision	**(204,685)**	(163,869)	**-**	-
Carrying amount	**13,370,872**	11,338,288	**7,392,452**	6,224,921
Total	**15,158,872**	12,372,535	**8,514,300**	6,613,709
Contingent liabilities				
Cash margin	**179,414**	233,005	**83,005**	117,875
Other	**371,545**	304,787	**-**	-
Total	**550,959**	537,792	**83,005**	117,875

Islamic financing and investing assets renegotiated

During the year ended 31 December 2017, Islamic financing and investing assets of AED 461 million (31 December 2016: AED 730 million) were re-negotiated.

6. Financial risk management (continued)

6.3 Credit risk and concentrations of risk (continued)

Investment securities

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

	2017 AED'000	2016 AED'000
A1	**172,856**	-
A3	**213,596**	835,962
A2	**134,490**	248,693
Baa1	**86,985**	-
Baa2	**243,238**	-
Baa3	**121,620**	85,143
Ba1	**346,947**	283,425
Ba3	**30,700**	31,697
Unrated	**561,822**	367,533
Total	**1,912,254**	1,852,453

All of the investment securities as at 31 December 2017 classified as available-for-sale were neither past due nor impaired.

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.

6. Financial risk management (continued)

6.4 Market risk (continued)

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 15,159 million (2016: AED 12,373 million), investment securities amounting to AED 1,721 million (2016: AED 1,772 million), Due from banks and financial institutions AED 601 million (2016: AED 335 million), customer deposits amounting to AED 11,522 million (2016: AED 9,176 million) and AED 3,363 million (2016: AED 2,542 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.

	2017		2016	
	Total AED'000	**Effect on profit/(loss) AED'000**	Total AED'000	Effect on profit/(loss) AED'000
Profit bearing asset	**17,481,010**	**46,385**	14,479,735	32,354
Profit bearing liabilities	**14,885,432**	**48,892**	11,718,527	36,364

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.

6. Financial risk management (continued)

6.4 Market risk (continued)

Price risk (continued)

		Impact on equity of the Group	
	Benchmark	**2017**	2016
		AED'000	AED'000
Investment securities at AFS	± 5%	**95,613**	92,623

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 2017 (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 2017 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
Assets							
Cash and balances with central bank	1,378,410	-	-	-	-	-	**1,378,410**
Due from banks and other financial institutions	137,450	99,729	254,172	110,153	-	-	**601,504**
Islamic financing and investing assets, net	3,162,745	1,021,195	542,526	3,831,403	6,601,003	-	**15,158,872**
Available-for-sale	-	-	103,357	437,576	1,371,321	-	**1,912,254**
Investment properties	-	-	-	-	-	580,448	**580,448**
Property and equipment	-	-	-	-	-	136,244	**136,244**
Other assets	191,913	38,205	-	-	-	29,804	**259,922**
Total assets	**4,870,518**	**1,159,129**	**900,055**	**4,379,132**	**7,972,324**	**746,496**	**20,027,654**
Liabilities and equity							
Islamic customers' deposits	7,100,827	3,437,059	3,719,993	66,000	-	-	**14,323,879**
Due to banks and other financial institutions	1,283,461	301,329	859,762	918,150	-	-	**3,362,702**
Other liabilities	201,269	29,346	-	-	-	-	**230,615**
Equity	-	-	-	-	-	2,110,458	**2,110,458**
Total liabilities and equity	**8,585,557**	**3,767,734**	**4,579,755**	**984,150**	**-**	**2,110,458**	**20,027,654**

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
Assets							
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
Total assets	3,767,113	961,587	935,215	5,432,771	4,441,855	463,035	16,001,576
Liabilities and equity							
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
Total liabilities and equity	7,546,758	2,642,702	2,890,010	910,675	-	2,011,431	16,001,576

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:

	2017	2016
At 31 December	**12%**	14%

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.

6. Financial risk management (continued)

6.7 Capital management (continued)

The Group's regulatory capital is analysed 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 financing 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.

Notes to the consolidated financial statements for the year ended 31 December 2017 (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:

	2017 AED'000	2016 AED'000
Tier 1 capital		
Share capital	**1,680,323**	1,623,500
Reserves	**495,341**	422,050
	2,175,664	2,045,550
Tier 2 capital		
General provision and fair value reserve	**104,167**	102,439
Total regulatory capital	**2,279,831**	2,147,989
Risk weighted assets		
Credit risk	**13,561,329**	10,929,410
Market risk	**96,842**	-
Operation risk	**932,864**	535,028
Total risk weighted assets	**14,591,035**	11,464,438
Capital adequacy ratio on regulatory capital	**15.62%**	18.74%
Capital adequacy ratio on Tier 1 capital	**14.91%**	17.84%

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

6. Financial risk management (continued)

6.7 Capital management (continued)

Basel III Capital Ratio

The Central Bank of UAE ("CBUAE") issued Basel III capital regulations, which came into effect from 1 February 2017, (parallel reporting for Q2'17 and Q3'17 and Primary reporting from Q4'17 onwards) introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Tier 1 ('T1') and Total Capital.

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

For 2017, CCB is effective in transition arrangement and is required to be maintained at 1.25% of the Capital base. For 2018, CCB will be required at 1.88% and from 2018; it will be required to be maintained at 2.5% of the Capital base. CCyB is not yet in effect and is not required to be maintained at for 2017.

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

	2017	Minimum capital requirement 2017	*Minimum capital requirement by 2019
Capital Ratio			
a. Total	**15.62%**	**11.75%**	**13%**
b. Additional Tier 1 ratio	**14.91%**	**9.75%**	**11%**
c. CET1 ratio	**14.91%**	**8.25%**	**9.5%**

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

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 2017 (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
2017			
Financial assets:			
Cash and balances with the central banks	-	**1,378,410**	**1,378,410**
Due from banks and other financial institutions	-	**601,504**	**601,504**
Islamic financing and investing assets	-	**15,158,872**	**15,158,872**
Available-for-sale	**1,912,254**	-	**1,912,254**
Other assets	-	**146,692**	**146,692**
Total	**1,912,254**	**17,285,478**	**19,197,732**
Financial liabilities:			
Islamic customers' deposits	-	**14,323,879**	**14,323,879**
Due to banks and other financial institutions	-	**3,362,702**	**3,362,702**
Other liabilities	-	**164,944**	**164,944**
Total	-	**17,851,525**	**17,851,525**
2016			
Financial assets:			
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
Total	1,852,453	13,380,886	15,233,339
Financial liabilities:			
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
Total	-	13,733,615	13,733,615

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 2017 (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
At 31 December 2017				
Financial assets				
Investment securities at AFS	**1,752,934**	**-**	**159,320**	**1,912,254**
Foreign currency forward contracts	**2,218**	**-**	**-**	**2,218**
	1,755,152	**-**	**159,320**	**1,914,472**
Non-financial assets				
Investment properties	**-**	**-**	**580,448**	**580,448**
At 31 December 2016				
Financial assets				
Investment securities at AFS	1,713,133	-	139,320	1,852,453
Foreign currency forward contracts	2,515	-	-	2,515
	1,715,648	-	139,320	1,854,968
Non-financial assets				
Investment properties	-	-	322,398	322,398

The movement in the level 3 financial assets were due to purchases during the year.

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 ± 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
31 December 2017	**58,045**	**(58,045)**	**15,932**	**(15,932)**
31 December 2016	32,240	(32,240)	13,932	(13,932)

- 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.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

8. Fair value measurement (continued)

The effect of unobservable input on fair value measurement (continued)

- 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.

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 2017 and 2016 is as follows:

	2017 AED'000	2016 AED'000
Cash on hand	**84,628**	86,448
Balances with the Central Bank:		
Current accounts	**104,729**	120,123
Reserve requirements with the Central Bank (note 9 (b))	**544,053**	402,405
International murabahat with the Central Bank	**645,000**	-
Total	**1,378,410**	608,976

The cash and balances with the Central Bank as at 31 December 2017 and 2016 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 cannot 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 finance up to 100% of their AED and US$ reserve requirement limit. As at 31 December 2017, the statutory reserve with the Central Bank amounted to AED 544 million (31 December 2016: AED 402 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 2017 and 2016 is as follows:

	2017 AED'000	2016 AED'000
Current accounts	**36,799**	77,704
Wakala deposits with banks	**564,705**	257,043
Total	**601,504**	334,747

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 2017 and 2016 is as follows:

	2017 AED'000	2016 AED'000
Within the U.A.E.	**441,776**	39,325
Outside the U.A.E.	**159,728**	295,422
Total	**601,504**	334,747

11. Islamic financing and investing assets, net

(a) The analysis of the Bank's Islamic financing and investing assets, net, as at 31 December 2017 and 2016 is as follows:

	2017 AED'000	2016 AED'000
Islamic financing assets		
Vehicles murabahat	**201,979**	268,988
Commodities murabahat	**6,186,260**	4,790,245
Total murabahat	**6,388,239**	5,059,233
Ijarahs	**8,375,151**	6,839,087
Istisna'a	**37,741**	14,161
Islamic credit cards	**38,762**	40,391
	14,839,893	11,952,872
Deferred income	**(968,537)**	(906,332)
Total Islamic financing assets	**13,871,356**	11,046,540
Islamic investing Assets		
Musharakat	**-**	80,000
Mudaraba	**1,092,562**	1,001,640
Wakalat	**742,570**	606,243
Total Islamic investing assets	**1,835,132**	1,687,883
Total Islamic financing and investing assets	**15,706,488**	12,734,423
Provisions for impairment (Note 11(b))	**(547,616)**	(361,888)
Total Islamic financing and investing assets, net	**15,158,872**	12,372,535

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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

(b) The movements in the provision for impairment during the years ended 31 December 2017 and 2016 are as follows:

	2017 AED'000	2016 AED'000
Specific		
Balance at 1 January	**198,019**	96,101
Charge for the year	**154,214**	116,991
Write-offs, net	**(9,302)**	(15,073)
Balance at 31 December	**342,931**	198,019
Collective		
Balance at 1 January	**163,869**	148,322
Charge for the year	**40,816**	15,547
Balance at 31 December	**204,685**	163,869
Total specific and collective provision	**547,616**	361,888

(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:

	2017 AED'000	2016 AED'000
Property and mortgages	**6,292,923**	4,863,788
Deposits and equities	**2,304,382**	1,867,796

(d) The fair value of collaterals that the Bank holds relating to facilities individually determined to be impaired at 31 December 2017 amounts to AED 128 million (2016: AED 116 million).

(e) The gross amount of Islamic financing and investing assets, determined to be impaired at 31 December 2017 amounts to AED 610 million (2016: AED 384 million).

Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 2017 and 2016 are as follows:

	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
2017			
Economic sector			
Government	**358,332**	**274,279**	**632,611**
Manufacturing and services	**4,753,375**	**42,535**	**4,795,910**
Trade	**2,149,263**	**-**	**2,149,263**
Real estate	**4,348,384**	**97,573**	**4,445,957**
Consumer home finance	**1,884,896**	**-**	**1,884,896**
Consumer financing	**1,797,851**	**-**	**1,797,851**
	15,292,101	**414,387**	**15,706,488**
Provision for impairment (Note 11(b))			**(547,616)**
Total			**15,158,872**
2016			
Economic sector			
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
	12,398,106	336,317	12,734,423
Provision for impairment (Note 11(b))			(361,888)
Total			12,372,535

12. Investment securities

	2017 AED'000	2016 AED'000
Available-for-sale (Note 12.1(a))	**1,912,254**	1,852,453
	1,912,254	1,852,453

12. Investment securities (continued)

12.1 Available-for-sale

(a) The geographical analysis of the available-for-sale investments as at 31 December 2017 and 2016 is as follows:

	2017 **AED'000**	2016 AED'000
Within the U.A.E.	**1,140,277**	637,681
Other G.C.C. Countries	**742,657**	521,398
Rest of the World	**29,320**	693,374
Total	**1,912,254**	1,852,453

(b) Analysis of investment in available-for-sale sukuk by industry group as at 31 December 2017 and 2016 is as follows:

	2017 **AED'000**	2016 AED'000
Government	**1,235,964**	1,511,806
Manufacturing and services	**50,000**	50,000
Real Estate	**141,620**	120,277
Financial institutions	**484,670**	170,370
Total	**1,912,254**	1,852,453

(c) During the year ended 31 December 2017, the Group recognized fair value loss on available-for-sale investments of AED 24 million in the investment fair value reserve (31 December 2016: fair value gain AED 28 million).

(d) Included in available for sale investment securities is an amount of AED 327 million (31 December 2016: Nil), pledged under collateralized Murabaha with financial institution".

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

13. Investment properties

(a) Movement in investment properties during the years ended 31 December 2017 and 2016 is as follows:

2017	**Properties under construction AED'000**	**Other real estate AED'000**	**Total AED'000**
Balance at 1 January 2017	**27,598**	**294,800**	**322,398**
Additions during the year	**28,372**	**224,043**	**252,415**
Increase in fair value during the year	-	**5,635**	**5,635**
Balance at 31 December 2017	**55,970**	**524,478**	**580,448**
2016			
Balance at 1 January 2016	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
Balance at 31 December 2016	27,598	294,800	322,398

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 2017 is AED 580 million (2016: AED 322 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 Group who held recognised and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued, Furthermore, management has performed assessment through comparable market data and present value of future cash flow model supported by existing lease and current market rents for similar properties.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

14. Property and equipment

	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
Cost							
At 1 January 2016	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)
At 31 December 2016	57,523	28,343	1,175	64,167	5,871	99,315	256,394
Additions	142	5,338	-	1,639	5,330	-	12,449
Transfers	1,745	2,024	-	1,050	(4,819)	-	-
Disposals	(92)	(21)	-	(11)	-	-	(124)
At 31 December 2017	**59,318**	**35,684**	**1,175**	**66,845**	**6,382**	**99,315**	**268,719**
Accumulated depreciation							
At 1 January 2016	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)
At 31 December 2016	42,365	21,466	829	48,377	-	2,720	115,757
Charge for year	3,718	4,455	143	7,033	-	1,493	16,842
Disposals	(92)	(21)	-	(11)	-	-	(124)
At 31 December 2017	**45,991**	**25,900**	**972**	**55,399**	**-**	**4,213**	**132,475**
Net book value							
At 31 December 2017	**13,327**	**9,784**	**203**	**11,446**	**6,382**	**95,102**	**136,244**
At 31 December 2016	15,158	6,877	346	15,790	5,871	96,595	140,637

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

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

15. Other assets

	2017 AED'000	2016 AED'000
Accrued income on Islamic financing and investing assets	**74,937**	52,171
Assets acquired in settlement of Islamic financing and investing assets	**29,804**	23,684
Prepaid expenses	**28,168**	19,028
Accrued income on investment securities	**22,376**	12,457
Acceptances (Note 18)	**17,319**	167,842
Staff advances	**13,598**	11,928
Foreign currency forward contracts	**2,218**	2,515
Other	**71,502**	80,205
	259,922	369,830

16. Islamic customers' deposits

(a) The analysis of the Islamic customers' deposits as at 31 December 2017 and 2016 is as following:

	2017 AED'000	2016 AED'000
Current accounts	**2,592,979**	1,716,175
Mudarba deposits:		
Savings accounts	**207,703**	175,223
Term deposits	**68,184**	96,892
	2,868,866	1,988,290
Wakala deposits	**11,249,371**	8,903,940
Escrow accounts	**93,933**	111,215
Margin accounts	**111,709**	94,451
	14,323,879	11,097,896

All Islamic customers' deposits as at 31 December 2017 and 2016 were held within the U.A.E.

Notes to the consolidated financial statements
for the year ended 31 December 2017 (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 2017 and 2016 is as following:

	2017 AED'000	2016 AED'000
Current accounts	**30,174**	-
Investment deposits	**3,332,528**	2,542,472
Total	**3,362,702**	2,542,472

(b) The geographical analysis of the Bank's due to banks and other financial institutions as at 31 December 2017 and 2016 is as follows:

	2017 AED'000	2016 AED'000
Within the U.A.E.	**2,616,097**	1,946,425
Outside the U.A.E.	**746,605**	596,047
Total	**3,362,702**	2,542,472

18. Other liabilities

	2017 AED'000	2016 AED'000
Accrued profit on Islamic customers' deposits and placements by banks	**117,733**	93,247
Provisions for staff salaries and benefits	**16,550**	19,219
Managers' cheques	**45,312**	45,193
Acceptances (Note 15)	**17,319**	167,842
Other	**33,701**	24,276
	230,615	349,777

19. Share capital

	2017 AED'000	2016 AED'000
***Issued and fully paid*:**		
1,680,322,500 (31 December 2016: 1,623,500,000) shares of AED 1 each	**1,680,323**	1,623,500

During the year 2016, 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, the Bank completed the process of issuing 500,000,000 shares for AED 675,000,000.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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 will be submitted to the Central Bank of the U.A.E. for its approval.

At the Annual General Meeting of the shareholders held on 29 March 2017, the shareholders approved a stock dividend in respect of the year ended 31 December 2016 at 3.5% (31 December 2015: 7%) of the share capital amounting to AED 56.8 million (31 December 2015: AED 73.5 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

	2017 AED'000	2016 AED'000
Income from Ijarah	**337,337**	266,440
Income from Murabaha	**271,377**	215,472
Income from Mudaraba	**39,953**	37,213
Income from Wakala	**31,401**	35,922
Income from Istisna financing	**1,135**	302
Income from Mushraka	**427**	5,433
	681,630	560,782

23. Income from investment securities

	2017 AED'000	2016 AED'000
Income from available-for-sale Sukuk	**79,048**	19,855
Realized gain on disposal of available-for-sale Sukuk	**7,541**	42,324
Income from held to maturity Sukuk	**-**	21,599
Total	**86,589**	83,778

24. Fees, commission and other income

	2017 AED'000	2016 AED'000
Trade related commission and fees	**5,762**	7,951
Foreign exchange income	**13,664**	9,453
Deposit and credit card fees	**7,242**	11,733
Processing and evaluation fees	**60,534**	25,238
Arrangement fee	**12,081**	13,269
Income from investment properties	**28,574**	52,863
Investment agent fees	**8,294**	1,902
Other	**12,933**	10,135
Total	**149,084**	132,544

25. Staff costs

	2017 AED'000	2016 AED'000
Salaries and allowances	**113,480**	114,451
Other staff related cost	**54,921**	64,225
	168,401	178,676

26. General and administrative expenses

	2017 AED'000	2016 AED'000
Rental expenses	**13,394**	12,153
Communication expenses	**3,904**	4,058
Software license	**2,321**	3,966
Premises and equipment maintenance costs	**5,104**	3,926
Legal and professional fees	**2,245**	3,176
Security services including cash in transit services	**3,224**	3,062
Marketing, designing and product development expenses	**3,117**	2,994
Consultancy expenses	**1,144**	2,525
Printing and stationary	**1,403**	2,272
Other	**16,189**	13,270
	52,045	51,402

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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:

	2017	2016
Basic earnings per share		
Profit for the year ended (AED'000)	**132,614**	125,545
Directors' remuneration (AED'000)	**(2,500)**	(2,500)
	130,114	123,045
Number of shares outstanding at 1 January (in thousands)	**1,623,500**	1,050,000
Effect of bonus shares issued (in thousands)		
Bonus shares issued in 2016	-	73,500
Bonus shares issued in 2017	**56,823**	56,823
Effect of right issue of shares (in thousands)		
New shares issued (weighted average)	-	319,558
Weighted average number of shares outstanding at 31 December (in thousands)	**1,680,323**	1,499,881
Basic earnings per share (AED)	**0.077**	0.082

As at 31 December 2017 and 2016, there were no potential dilutive shares outstanding.

The weighted average number of ordinary shares in issue throughout the year ended 31 December 2016 has been adjusted to reflect the bonus shares issued during the year ended 31 December 2017.

28. Cash and cash equivalents

	2017 AED'000	2016 AED'000
Cash and balances with the Central Banks (Note 9)	**1,378,410**	608,976
Due from banks and other financial institutions (original maturity less than three months)	**137,401**	77,704
Investment securities (Note 12) - Highly liquid investments with original maturity less than three months	-	664,054
	1,515,811	1,350,734
Less: Statutory deposit with Central Banks (Note 9)	**(544,053)**	(402,405)
	971,758	948,329

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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% (2016: 26%) of the issued and paid capital.

Transactions

Transactions with related parties are shown below:

	2017			2016		
	Major shareholders AED'000	**Director and other related parties AED'000**	**Total AED'000**	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000
Depositors' share of profit	**64,613**	**2,114**	**66,727**	57,786	1,376	59,162
Income from Islamic financing and investing assets	**54,030**	**4,373**	**58,403**	42,734	4,149	46,883
Rental expenses	**-**	**-**	**-**	-	1,660	1,660

Balances

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

	2017			2016		
	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	**751,462**	**143,033**	**894,495**	778,420	68,355	846,775
Customers' deposits	**2,733,040**	**184,260**	**2,917,300**	2,218,820	80,259	2,299,079
Other assets (advances)	**-**	**-**	**-**	-	26,900	26,900

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

29. Related parties transactions (continued)

Compensation of management personnel

Key management compensation is as shown below:

	2017 AED'000	2016 AED'000
Short term employment benefits	**19,162**	18,631
Terminal benefits	**1,039**	1,068
Total	**20,201**	19,699

30. Contingencies and commitments

Capital commitments

At 31 December 2017, the Group had outstanding capital commitments of AED 65 million (31 December 2016: AED 70 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:

	2017 AED'000	2016 AED'000
Commitments to extend credit	**978,860**	1,044,126
Letters of credit	**51,513**	51,014
Letters of guarantee	**499,446**	486,778
	1,529,819	1,581,918

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:

- Consumer 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.

31. Segment analysis

Segment results of operations

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

At 31 December 2017	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investments AED'000	Other AED'000	Total AED'000
Net income from Islamic financing and investing assets	94,145	209,994	12,113	13,774	-	330,026
Income from investment securities	-	-	80,204	6,385	-	86,589
Impairment charges on Islamic financing and investing assets	(21,735)	(167,670)	(2,472)	(3,920)	-	(195,797)
Net fee and other income	20,423	76,145	12,881	37,713	1,922	149,084
Staff cost	(49,265)	(15,002)	(2,881)	(5,705)	(95,548)	(168,401)
General and administrative expenses	(27,454)	(4,254)	(870)	(190)	(19,277)	(52,045)
Depreciation of property and equipment	-	-	-	-	(16,842)	(16,842)
Operating profit/(loss)	16,114	99,213	98,975	48,057	(129,745)	132,614
Segment assets	4,022,137	11,519,408	2,441,765	1,425,537	618,807	20,027,654
Segment liabilities	2,902,735	12,297,184	1,579,290	864,178	273,809	17,917,196

31. Segment analysis (continued)

Segment results of operations (continued)

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investments AED'000	Other AED'000	Total AED'000
At 31 December 2016						
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)
Operating profit/(loss)	12,090	88,801	107,175	-	(82,521)	125,545
Segment assets	3,775,246	9,136,576	1,848,584	-	1,241,170	16,001,576
Segment liabilities	2,067,964	11,159,580	391,417	-	371,184	13,990,145

Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)

31. Segment analysis (continued)

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 2017 and 2016.

32. Maturity profile of financial liabilities

		2017	
	Up to 1 year AED'000	**1 - 5 years AED'000**	**Total AED'000**
Islamic customers' deposits	**14,257,879**	**66,000**	**14,323,879**
Due to banks and other financial institutions	**2,444,552**	**918,150**	**3,362,702**
Other liabilities	**164,944**	**-**	**164,944**
	16,867,375	**984,150**	**17,851,525**
Commitments and contingent liabilities	**349,298**	**1,180,521**	**1,529,819**

		2016	
	Up to 1 year AED'000	1 - 5 years AED'000	Total AED'000
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
	12,822,941	910,674	13,733,615
Commitments and contingent liabilities	1,497,627	84,291	1,581,918

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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 2017	2016	Country of incorporation	Principal activities
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.

An amount of AED Nil was placed during the period ended 31 December 2017 into the above subsidiaries (2016: AED 135 million was placed).

34. Social contributions

The social contribution (including donations and charities) made during the year amounted to AED 0.7 million (2016: AED 1.5 million).

35. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 18 January 2018.