Emirates Investment Bank P.J.S.C.

Report and consolidated financial statements
for the year ended 31 December 2018

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REPORT OF THE BOARD OF DIRECTORS
For the year ended 31 December 2018

The Directors are pleased to place before the shareholders of Emirates Investment Bank PJSC ("Bank") the consolidated financial statements for the year ended 31 December 2018.

During the past few years, the Bank has been repositioning itself with the objective of becoming a leading regional private bank serving a select client base of high net worth individuals and institutional clients. During 2018, we continued to execute on this strategy while simultaneously building the infrastructure required for growth.

The Bank closed 2018 with an annual net profit of AED 38.7 million, a decrease of 31% over the previous year (AED 56.5 million), while maintaining a healthy Capital Adequacy Ratio at 21.61% (Tier I Adequacy Ratio of 20.64%). Over this period, customer deposits decreased by 8% to reach AED 2,881 million (AED 3,132 million in 2017), while total balance sheet assets reached 4,017 million, a decrease of 18% over the previous year (AED 4,905 million).

The value of Bank's fiduciary assets increased by 0.8% to AED 5,677 million (AED 5,628 million in 2017) for a total assets under the Bank's management of AED 9,694 million (AED 10,533 million in 2017).

It is proposed that this year's profit be appropriated as follows:

	AED
- Transfer to special reserve in accordance with the requirements of Article 58(2) of the Articles of association of the Bank	3,695,000

As we continue our journey to build a leading regional private bank, we extend our gratitude to our clients for their support and to our staff for their dedication and hard work.

Board of Directors
25 February 2019

Dubai, United Arab Emirates

Independent auditor's report to the shareholders of Emirates Investment Bank PJSC Group

Report on the Audit of the Consolidated Financial Statements

Our opinion

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

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

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

Independent auditor's report to the shareholders of Emirates Investment Bank PJSC Group (continued)

Our audit approach

Key Audit Matter	• Measurement of Expected Credit Losses and related disclosures

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

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

Key audit matters

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Measurement of Expected Credit Losses and related disclosures: IFRS 9 'Financial instruments' came into effect from 1 January 2018 and replaced most of the guidance in IAS 39 – 'Financial instruments'. In particular, the incurred loss impairment model under IAS 39 has been replaced with the Expected Credit Losses model ("ECL"). The Group adopted IFRS 9 with effect from 1 January 2018. The adoption of the ECL model under IFRS 9 has resulted in a decrease in the impairment provision by AED 23.7 million which has been recognized as a credit to retained earnings. The Group applies ECL on all the financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income, and financial guarantee contracts including financing commitments. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default, loss given default and determining exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria. The Group's impairment policy as per IFRS 9 is presented in Note 3.3 to the consolidated financial statements. Measurement of ECL is considered as a key audit matter as Group applies significant judgments in the staging criteria applied to the financial instruments and in developing ECL models for assessing its impairment provisions and judgments are involved in determining the disclosures under IFRS 7 and IFRS 9.	We performed the following audit procedures on the computation of the ECL and the IFRS 7 and IFRS 9 disclosures included in the Group's consolidated financial statements for the year ended 31 December 2018: ➢ We involved our internal impairment modelling specialists to assess and review the following areas: ● The conceptual framework used for developing the Group's impairment policy in the context of its consistency with the requirements of IFRS 9. ● Assessing the ECL modelling methodology and calculations used to compute the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for the Group's classes of financial instruments. ➢ We tested the reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk. ➢ For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and the resultant arithmetical calculations. ➢ We tested the completeness and accuracy of the data used in calculation of ECL. ➢ For a sample of exposures, we checked the appropriateness of the Group's staging of financial instruments. ➢ We assessed the consolidated financial statements disclosures to ensure compliance with IFRS 7 and IFRS 9.

Other information

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

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

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

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

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

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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

Independent auditor's report to the shareholders of Emirates Investment Bank PJSC Group (continued)

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

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

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

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

Report on other legal and regulatory requirements

Further, 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 books of account of the Group;
- note 8 to the consolidated financial statements discloses the shares purchased by the Group during the financial year ended 31 December 2018;
- note 23 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

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Independent auditor's report to the shareholders of Emirates Investment Bank PJSC Group (continued)

Report on other legal and regulatory requirements (continued)

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

- based on the information that has been available to us, no social contributions were made during the year.

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

PricewaterhouseCoopers
25 February 2019

Rami Sarhan
Registered Auditor Number 1152
Place: Dubai, United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 AED'000	2017 AED'000
ASSETS			
Cash and balances with UAE Central Bank	5	**373,165**	458,553
Due from banks, net	6	**833,419**	1,221,921
Loans and advances, net	7	**1,330,201**	1,074,302
Investments, net	8	**1,437,582**	2,110,994
Property and equipment	10	**7,238**	7,624
Other assets	11	**35,276**	31,371
TOTAL ASSETS		**4,016,881**	4,904,765
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	12	**623,546**	1,163,475
Customer deposits		**2,881,278**	3,131,840
Other liabilities	13	**41,352**	40,465
TOTAL LIABILITIES		**3,546,176**	4,335,780
EQUITY			
Share capital	14	**70,000**	70,000
Legal reserve	14	**35,000**	35,000
Special reserve	14	**44,251**	40,556
Credit impairment reserve		**23,742**	-
Cumulative changes in fair value		**9,450**	18,359
Retained earnings		**288,034**	257,658
Equity attributable to equity holders of the parent		**470,477**	421,573
Non-controlling interests		**228**	147,412
TOTAL EQUITY		**470,705**	568,985
TOTAL LIABILITIES & EQUITY		**4,016,881**	4,904,765

The consolidated financial statements were approved by the Board of Directors on 25 February 2019 and signed on its behalf by:

Buti Al Mulla
(Director)

Khaled Sifri
(Chief Executive Officer)

The accompanying notes from pages 15 to 72 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
For year ended 31 December 2018

	Note	2018 AED'000	2017 AED'000
Interest income	15	**83,660**	68,098
Net income from investments	16	**51,549**	81,932
		135,209	150,030
Interest expense		**(54,015)**	(37,424)
INTEREST AND INVESTMENT INCOME,NET		**81,194**	112,606
Fee, commission and other income	17	**50,635**	57,154
Exchange gain, net		**4,171**	2,391
OPERATING INCOME		**136,000**	172,151
General and administrative expenses	18	**(97,029)**	(95,118)
Net impairment loss on financial assets	19	**(261)**	(20,518)
OPERATING EXPENSES		**(97,290)**	(115,636)
PROFIT FOR THE YEAR		**38,710**	56,515
Attributable to:			
Equity holders of the parent		**36,954**	54,024
Non-controlling interests		**1,756**	2,491
PROFIT FOR THE YEAR		**38,710**	56,515
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (in AED)	20	**52.79**	77.18

The accompanying notes from pages 15 to 72 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	*2017*
	AED'000	*AED'000*
PROFIT FOR THE YEAR	**38,710**	56,515
Other comprehensive income to be reclassified to the income statement in subsequent years		
Items that will not be reclassified subsequently to income statement		
Fair value reserve (equity instruments)		
net changes in fair value	**(180)**	-
Gain on sale of investment	**97**	-
Items that may be reclassified subsequently to income statement		
Fair value reserve (debt instruments)		
net changes in fair value	**(4,011)**	-
Expected credit losses on investment in debt instruments measured at fair value through other comprehensive income	**(16)**	-
Fair value reserve (available-for-sale investments)		
net changes in fair value	-	10,137
net amount transferred to income statement	-	(6,236)
Other comprehensive (loss)/ income for the year	**(4,110)**	3,901
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**34,600**	60,416
Attributable to:		
Equity holders of the parent	**32,844**	57,925
Non-controlling interests	**1,756**	2,491
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**34,600**	60,416

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital AED'000	Legal reserve AED'000	Special reserve AED'000	Credit impairment reserve* AED '000	Cumulative changes in fair value AED'000	Retained earnings AED'000	Total AED'000	Non-controlling interest AED'000	Total AED'000
At 1 January 2018	70,000	35,000	40,556	-	18,359	257,658	421,573	147,412	568,985
Changes on initial application of IFRS 9 (note 3.3)	-	-	-	23,742	(4,799)	(2,883)	16,060	-	16,060
Restated balance at 1 January 2018	70,000	35,000	40,556	23,742	13,560	254,775	437,633	147,412	585,045
Profit for the year	-	-	-	-	-	36,954	36,954	1,756	38,710
Other comprehensive loss for the year	-	-	-	-	(4,110)	-	(4,110)	-	(4,110)
Total comprehensive income for the year	-	-	-	-	(4,110)	36,954	32,844	1,756	34,600
Transfers	-	-	3,695	-		(3,695)	-	-	-
Movement in non-controlling interests	-	-	-	-	-	-	-	(148,940)	(148,940)
Balance at 31 December 2018	**70,000**	**35,000**	**44,251**	**23,742**	**9,450**	**288,034**	**470,477**	**228**	**470,705**

** The Bank has created a special reserve titled as 'credit impairment reserve' in lieu of the general provision required to be created in accordance with the "Circular No 28/2010" issued by the UAE Central Bank.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital AED'000	Legal reserve AED'000	Special reserve AED'000	Cumulative changes in fair value AED'000	Retained earnings AED'000	Total AED'000	Non-controlling interest AED'000	Total AED'000
At 1 January 2017	70,000	35,000	35,154	14,458	209,036	363,648	103,997	467,645
Profit for the year	-	-	-	-	54,024	54,024	2,491	56,515
Other comprehensive income for the year	-	-	-	3,901	-	3,901	-	3,901
Total comprehensive income for the year	-	-	-	3,901	54,024	57,925	2,491	60,416
Transfers	-	-	5,402	-	(5,402)	-	-	-
Movement in non-controlling interests	-	-	-	-	-	-	40,924	40,924
Balance at 31 December 2017	**70,000**	**35,000**	**40,556**	**18,359**	**257,658**	**421,573**	**147,412**	**568,985**

The accompanying notes from pages 15 to 72 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Note	2018 AED'000	2017 AED'000
OPERATING ACTIVITIES			
Profit for the year		**38,710**	56,515
Adjustments for:			
Depreciation	10	**2,681**	1,937
Loss on sale of property and equipment	10	**17**	222
Net impairment loss on financial assets	19	**261**	20,518
Operating profit before changes in operating assets and liabilities		**41,669**	79,192
Change in UAE Central Bank statutory deposits		**91,887**	47,419
Change in due to bank with original maturity of over three months		**15,154**	122,569
Change in due from bank with original maturity of over three months		**65,440**	141,007
Change in loans and advances (net)		**(241,801)**	(252,316)
Change in investments (net)		**671,760**	29,170
Change in other assets		**(3,905)**	(2,181)
Change in customers' deposits		**(250,562)**	(298,516)
Change in other liabilities		**887**	(29,597)
Net cash generated from/ (used in) operating activities		**390,529**	(163,253)
INVESTING ACTIVITIES			
Purchase of property and equipment	10	**(2,312)**	(3,920)
Proceeds from disposal of property and equipment	10	**-**	35
Net cash used in investing activities		**(2,312)**	(3,885)
FINANCING ACTIVITY			
Funds (used in)/ generated from non-controlling interests		**(148,940)**	40,924
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		**239,277**	(126,214)
Cash and cash equivalents at 1 January		**397,319**	523,533
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**636,596**	397,319
Cash and cash equivalents comprise the following amounts in the statement of financial position with original maturities of three months or less:			
Cash and balances with the UAE Central Bank (excluding statutory deposits)	5	**188,243**	181,744
Due from banks	6	**834,176**	1,156,481
Due to banks	12	**(385,823)**	(940,906)
		636,596	397,319
Operational cash flows from interest and dividends			
Interest paid		**53,122**	46,417
Interest received (including interest from investments)		**131,683**	127,204
Dividends received		**12,959**	15,831

1 GENERAL INFORMATION

Emirates Investment Bank P.J.S.C. (the "Bank") was incorporated on 17 February 1976 in Dubai, United Arab Emirates by a decree of HH The Ruler of Dubai. In 1999, the Bank was registered under the UAE Commercial Companies Law No. (8) Of 1984 (as amended) as a Public Joint Stock Company. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 28 June 2015, replacing the existing Federal Law No. 8 of 1984.

The Bank is engaged in the business of private banking and investment banking. The address of the Bank's registered office is P. O. Box 5503, Dubai, United Arab Emirates.

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

The Bank is a subsidiary of Al Futtaim Private Company LLC which holds 52.85% (2017: 52.85%) of the shares in the Bank.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

2.1 New and revised IFRS applied on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these financial statements. The application of these revised IFRSs, except where stated, has not had any material impact on the amounts reported for the current and prior years.

- **IFRS 15, 'Revenue from contracts with customers'** The standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises 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. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.
- **Amendment to IFRS 15, 'Revenue from contracts with customers'** The amendments comprise clarifications on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.
- **IFRIC 22, Foreign currency transactions and advance consideration**
  The interpretation considers how to determine the date of transaction when applying the standard on applying the date of transactions, IAS 21. The date of transaction determines the exchange rate to be used on initial recognition to be used on an initial recognition of a related asset, expense or income. The interpretation provides guidance for when a single payment / receipt is made, as well as for situations where multiple payments / receipts are made.
- **IFRS 9, 'Financial instruments'** The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit and loss (FVPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.The impact of the IFRS 9 on the consolidated financial statements of the Group has been disclosed in note 3.3.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (continued)

2.2 New and revised IFRS issued but not yet effective and not early adopted

The Group has not yet early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRS	Effective for annual periods beginning on or after
• **IFRS 16, 'Leases'** - This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays remains mainly unchanged. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. As per the assessment performed by the management adoption of this new standard on 1 January 2019 will increase assets and liabilities by AED 10,254 thousand and AED 10,516 thousand respectively.	1 January 2019
• **Amendment to IFRS 9, 'Financial instrument' -** The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. The amendment also confirms that modifications in financial liabilities will result in the immediate recognition of a gain or loss. There is no material impact on the consolidated financial statements of the Group from the adoption of above interpretations on 1 January 2019.	1 January 2019
• **IFRIC 23 Uncertainty over Income Tax Treatments –** The interpretation address the determination of taxable profit (tax loss) tax bases, 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 ➢ The determination of taxable profit (tax loss), tax bases, unused tax losses, and tax rates. There is no material impact on the consolidated financial statements of the Group from the adoption of above interpretations on 1 January 2019.	1 January 2019

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

There are no other relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2019 that would be expected to have a material impact on the consolidated financial statements of the Group.

3 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared on the historical cost basis except for debt securities, equity shares and derivatives that are classified as either fair value through profit and loss (FVTPL) or fair value through other comprehensive income (FVTOCI) that are measured at fair value.

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

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

3.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations as issued by International Accounting Standards Board ("IASB") and applicable requirements of the laws of the United Arab Emirates ("UAE").

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2018. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if, and only if, the Bank has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The Bank 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 Bank has less than a majority of the voting or similar 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 Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from the contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank 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 at shareholders' meetings.

3 BASIS OF PREPARATION (continued)

3.2 Basis of consolidation (continued)

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Bank 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 a subsidiary to bring their accounting policies into line with the Group's accounting policies.

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

The following subsidiaries in which the Bank exercises control are consolidated in these financial statements based on the financial statements of the respective subsidiaries:

Name of subsidiaries	***Country***	***% Holding***		***Principal activities***
		2018	2017	
EIB Enhanced Liquidity Fund Limited*	Cayman Islands	**20%**	56%	Generate income and preserve capital through investment in short-term, high quality debt instruments and related securities.
EIB Investment Co. LLC**	U.A.E	**24%**	24%	Investment in commercial, industrial and agricultural enterprises and their respective management.

Special purpose entities (SPE)
A SPE is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual arrangements. SPE are entities that often have restricted activities and are created to accomplish a narrow and well-defined objective such as the securitisation of assets or the execution of a specific financing transaction. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risk and rewards, the Group concludes that it controls the SPE.

The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates a SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation;
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; or
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over a SPE is carried out at inception and reassessed at each statement of financial position date.

* EIB Enhanced Liquidity Fund Limited (the Company) had launched a liquidity fund. The Bank has been appointed as the Investment Manager and Custodian of the Fund. The Company is managed by EIB Investment Management (Cayman) Limited, which is a 100% subsidiary of EIB Investment Co. LLC. The Company is an open-ended, multi-class investment company structured to operate as an open-ended unit trust or mutual fund and is an exempted company with limited liability formed under the laws of the Cayman Islands. During the year management has assessed the above criteria as the ownership for EIB Enhanced Liquidity Fund Limited was reduced to 19.68%.

3 BASIS OF PREPARATION (continued)

3.2 Basis of consolidation (continued)

Based on management's assessment taking into consideration the above factors, management has decided to de-consolidate the Company as at 30 September 2018. Accordingly the Group derecognised the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss was recognized in the income statement.

** During 2017, the Bank entered into a transaction with EIB Investment Co. LLC (the entity). The Bank has exercised significant control over the entity during the period as it has rights to variable returns from the transaction and has the ability to affect the returns. As the Bank now has control over the entity, it has been consolidated in these consolidated financial statements. The entity has the following wholly owned subsidiaries namely EIB Corporate Services Limited, EIB Global Markets Cayman Limited and EIB Investment Management Cayman Ltd.

The entity has contributed AED 446 thousand of interest income and fee, commission and other income and no profit for the period. Total assets of the entity as at 31 December 2018 amounting to AED 719 thousand have been recognised in these consolidated financial statements.

3.3 Changes in accounting policies

The Group has consistently applied the accounting policies as applied by the Group in the annual consolidated financial statements for the year ended 31 December 2017, except the following accounting policies which are applicable from 1 January 2018:

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements. The Group has not early adopted any of the elements of IFRS 9 in previous periods.

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

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

The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 ‘Financial Instruments: Disclosures’.

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

3 BASIS OF PREPARATION (continued)

3.3 Changes in accounting policies (continued)

(a) Classification and measurement of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018:

Financial Assets	Previous classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39 AED'000	Carrying amount under IFRS 9 AED'000
Cash and balances with the UAE Central Bank	Amortised cost	Amortised cost	**458,553**	**458,553**
Due from banks	Amortised cost	Amortised cost	**1,221,921**	**1,218,822**
Loans and advances	Loans and receivables	Amortised cost	**1,074,302**	**1,088,845**
Investment in debt instruments	Available-for-sale	FVOCI	**1,619,804**	**471,387**
	Held-to-maturity	Amortised cost	**-**	**1,066,539**
	FVTPL	FVPL	**103,974**	**190,468**
Investment in equity instruments	Available-for-sale	FVOCI	**299,790**	**52,416**
	FVTPL	FVPL	**86,810**	**334,184**
Other assets (excluding prepayments)	Amortised cost	Amortised cost	**27,839**	**27,839**
	FVTPL	FVPL	**862**	**862**

3 BASIS OF PREPARATION (continued)

3.3 Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9:

There were no changes to the classification and measurement of financial liabilities that would have been required in accordance with IFRS 9 at 1 January 2018.

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Financial Assets	IAS 39 carrying amount 31 December 2017 AED'000	Reclassi-fications AED'000	Remeasure-ments AED'000	IFRS 9 carrying amount 1 January 2018 AED'000
Amortised cost				
Cash and balances with the UAE Central Bank	458,553	-	-	458,553
Due from banks	1,221,921	-	(3,099)	1,218,822
Loans and advances	1,074,302	-	14,543	1,088,845
Investment in debt instruments	-	1,078,223	(11,684)	1,066,539
Other assets (excluding prepayments)	27,839	-	-	27,839
Total financial assets measured at amortised cost	2,782,615	1,078,223	(240)	3,860,598
Fair value through profit or loss (FVPL)				
Investment in debt instruments	103,974	86,494	-	190,468
Investment in equity instruments	86,810	247,374	-	334,184
Other assets (excluding prepayments)	862	-	-	862
Total financial assets measured at FVPL	191,646	333,868	-	525,514
Fair value through other comprehensive income (FVOCI)				
Investment in debt instruments	1,619,804	(1,164,717)	16,300	471,387
Investment in equity instruments	299,790	(247,374)	-	52,416
Total financial assets measured at FVOCI	1,919,594	(1,412,091)	16,300	523,803

3 BASIS OF PREPARATION (continued)

3.3 Changes in accounting policies (continued)

(c) Reconciliation of statement of changes in equity balances from IAS 39 to IFRS 9:

The following table analyses the impact, on reserves and retained earnings arising as a result of the transition to IFRS 9. The impact relates to the fair value reserve and retained earnings. The reversal of expected credit loss for impairment for financial assets amounting to AED 23,742 million this has been credited to retained earnings and immediately appropriated to credit impairment reserve. There is no impact on other components of equity.

	AED'000
Cumulative changes in fair value	
Closing balance under IAS 39 (31 December 2017)	18,359
Reclassification of investment securities (debt) from available-for-sale to amortized cost	(7,682)
Reclassification of investment securities (debt and equity) from available-for-sale to FVPL	1,573
Recognition of expected credit losses under IFRS 9 for investment in debt instruments measured at FVOCI	1,310
Opening balance under IFRS 9 (1 January 2018)	**13,560**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	257,658
Reclassification of investment securities (debt and equity) from available-for-sale to FVPL	(1,573)
Recognition of expected credit losses under IFRS 9 for investment in debt instruments measured at FVOCI	(1,310)
Opening balance under IFRS 9 (1 January 2018)	**254,775**

(d) Measurement methods

Amortised cost and effective interest rate

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

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

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

Interest Income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

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

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

3 BASIS OF PREPARATION (continued)

3.3 Changes in accounting policies (continued)

IFRS 9 financial instruments (continued)

(d) Measurement methods (continued)

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

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
b) In all other cases, the difference is deferred and the time of recognition of deferred day one profit or loss is determined individually. It is either amortised over life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Financial assets

(i) Classification and subsequent measurement

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

The classification requirements for debt and equity instruments are described below:

Debt instruments:

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

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the assets; and
(ii) the cash flow characteristics of the asset.

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

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

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

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arise, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they were presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Net income from investments' using the effective interest rate method.

3 BASIS OF PREPARATION (continued)

3.3 Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(i) Classification and subsequent measurement (continued)

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

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

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

Equity instruments:

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

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

(ii) Impairment

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

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

Note 3.4 provides more details of how the expected credit loss allowance is measured.

3 BASIS OF PREPARATION (continued)

3.3 Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(iii) Modification of loans

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

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

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

If the terms are not substantially different, the renegotiation or modification does not result in the derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

(iv) Derecognition other than on a modification

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

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

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

3 BASIS OF PREPARATION (continued)

3.4 Significant management judgments and estimates

In the application of the Group's accounting policies, which are described in Note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Classification of financial assets

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

Measurement of the expected credit loss allowance

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

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

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

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Disposal of a subsidiary

There is judgment involved in considering whether control exists over a certain investment. In assessing control, management of the Group assess its power over the investee, the exposure to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. During the year management has assessed the above criteria as the ownership for EIB Enhanced Liquidity Fund Limited was reduced to 19.68%.

Based on management's assessment taking into consideration the above factors, management has decided to de-consolidate the fund as at 30 September 2018. Accordingly the Group derecognised the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss was recognized in the income statement.

3 Basis of preparation (continued)

3.4 Significant management judgments and estimates (continued)

Liquidity

The Group manages its liquidity by maintaining an adequate ratio of net liquid assets to liabilities which is set out in a table in the liquidity risk disclosure in note 24. The table requires judgment with regards to whether assets can be considered liquid.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transaction;
- current fair value of another investment that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of cash flows and discount factors for unquoted equity investments requires significant estimations. The Group calibrates the valuation techniques periodically and tests them for validity using either process from observable current market transactions in the same investment or from other available observable market data.

4 SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

For all financial instruments measured at amortised cost and other interest bearing financial instruments including financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission, custody and management on fiduciary assets and advisory fees. Other fee income and expenses are recognised when earned or incurred.

Dividend income is recognised in the consolidated statement of profit or loss when the Group's right to receive dividend has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of Income can be measured reliably).

Cash and cash equivalents

Cash and cash equivalents for the purpose of consolidated statement of cash flows comprise balances with maturities of three months or less from the date of acquisition including cash and balances with UAE Central Bank, due from banks and due to banks.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Due from banks

Due from banks are stated at amortised cost using the effective interest method less allowance for impairment, if any.

Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are disclosed in the notes to the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral, the counterparty liability is included in due to banks.

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of principal market, in the most advantageous market for the asset and liabilities.

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

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.

Fair value is applicable to both financial and non-financial instruments.

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices at the close of business on the statement of financial position date. Bid prices are used for assets and offer prices are used for liabilities.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

For unquoted equity investments, fair value is determined by reference to the current market value of a similar investment, recent arm's length market transactions, or is based on expected discounted cash flows or derived using other accepted valuation models.

The fair value of forward foreign exchange contracts is calculated by reference to forward exchange rates for contracts with similar maturities.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is recognised so as to write off the cost of assets (other than land and capital work in progress), using the straight-line method, over the estimated useful lives of the respective assets, as follows:

	Years
Furniture and computer equipment	4 years
Motor vehicles	4 years
Computer software	4 years

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Artwork and capital work in progress are not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

One year after property and equipment are fully depreciated, they are maintained at a net book value of one currency unit by setting off accumulated depreciation against cost.

Capital work-in-progress are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Investments in associates

Associates are the entities over which the Group has significant influence but not control, generally accompanying a shareholding of over 20% of the voting rights, not being a subsidiary or a joint venture.

An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Under the equity method, the investment in associate is measured in the consolidated statement of financial position at cost plus post-acquisition changes in the Group’s share of net assets of the associate.

The profit or loss reflects the share of the results of operations of the associates. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associates.

The Group’s share of the profit or loss of its associates is shown on the face of the consolidated income statement.

When the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group’s investment in its associates. The Group determines at each consolidated statement of financial position date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

The financial statements of the associates are prepared as of the same reporting date as for the Group. Where necessary, adjustments are made in the Group’s consolidated financial statements to align the accounting policies of the associates in line with those of the Group.

Upon loss of significant influence over the associate, the Group measures any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in consolidated income statement.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Deposits

All money market and customer deposits are carried at cost less amounts repaid.

Employees' end of service benefits

Provision is made for the employees' end of service indemnity in accordance with the UAE labour law for their periods of service up to the financial position date. In addition, in accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using an appropriate discount rate based on management's assumption of average annual increment/promotion costs. The present value of the obligation as at 31 December 2018 is not materially different from the provision computed in accordance with the UAE Labour Law.

The provision arising is disclosed as 'provision for employees' end of service indemnity' in the consolidated statement of financial position under 'other liabilities' (Note 13).

Pension and national contribution for UAE citizens are made by the Group in accordance with Federal Law No. 7 of 1999 and no further liability exists.

Provisions

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 reporting date, taking into account the risks and uncertainties surrounding the obligation. Where 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, the 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.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement in 'Other income' on a straight line basis over the life of the guarantee.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases of property and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

Foreign exchange gain and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the consolidated statement of profit or loss;
- for financial assets that are monetary items and designated as at FVTOCI, any foreign exchange component is recognized in consolidated statement of profit or loss;
- for financial assets that are non-monetary items and designated as at FVTOCI, any foreign exchange component is recognised in the consolidated statement of comprehensive income; and
- for foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

Offsetting of financial assets and liabilities

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

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transaction. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at exchange rate ruling at the reporting date. Any resultant gains and losses are taken to the consolidated income statement.

Segment reporting

The Group's reporting is based on the following operating segments: Investment and Banking Services.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

The Group enters into derivative instruments including forwards, futures, forward rate agreements, swaps, credit default swap and options in the foreign exchange, interest rate and capital markets. 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 statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss 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. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 financial instruments (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is received from or delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not recognised in the consolidated statement of financial position.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Significant accounting policies applicable before 1 January 2018

Recognition of financial assets and liabilities
Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to contractual provisions of the instrument. From this date, any gains or losses arising from changes in fair value of the assets and liabilities designated at fair value through profit and loss or available-for-sale assets are recognised. Loans and advances are recognised on the day they are transferred to or acquired by the Group.

Loans and advances
Loans and advances are stated at amortised cost net of interest suspended, provisions for impairment and any amounts written off. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income in the consolidated income statement and the losses arising on impairment of such loans and advances are separately recognised in the consolidated income statement.

Investments
Investments are classified as follows:
- Investments at fair value through profit or loss;
- Available-for-sale

Investments at Fair Value through Profit or Loss ("FVTPL")
This category has two sub-categories:
- Investment securities held for trading, and;
- Those designated at fair value through profit or loss at inception.

An investment security is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is an evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Investment securities are designated as at FVTPL in the following circumstances:
- Doing so eliminates or significantly reduces measurement or recognition inconsistencies that would arise from measuring assets or liabilities or recognising the gains and losses on them on different basis; or
- They are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Available-for-sale
Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held to maturity or loans and advances. Available-for-sale investments include certain equity and debt investments including commercial papers. These investments may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Initial recognition
All investment securities are initially recognised at fair value plus, except for investments at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of such investment.

Subsequent measurement
After initial recognition, investments at fair value through profit or loss are remeasured at fair value. Fair value changes in respect of these investments are taken to the consolidated income statement. After initial recognition, available-for-sale investments are remeasured at fair value except unquoted equity investments whose fair value cannot be reliably determined and commercial paper issued for a short duration, accordingly, fair value is not much different from the carrying values in which case they are measured at cost less accumulated impairment. Fair value changes are reported as a separate component of equity until the security is derecognised or the security is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity is included in the consolidated income statement for the year.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Significant accounting policies applicable before 1 January 2018 (continued)

Derecognition of financial assets and financial liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the Group's rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Significant accounting policies applicable before 1 January 2018 (continued)

Impairment and uncollectibility of financial assets
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost
For financial assets carried at amortised cost (such as amounts due from banks and loans and advances to customers), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income is recorded as part of 'Interest and similar income' in the consolidated income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Significant accounting policies applicable before 1 January 2018 (continued)

Impairment and uncollectibility of financial assets (continued)

(ii) Available-for-sale financial investments
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest income on investments in debt instruments" included in 'Net income from investments'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires considerable judgement. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in the fair value after impairment are recognised directly in other comprehensive income.

5 CASH AND BALANCES WITH UAE CENTRAL BANK

	2018	2017
	AED'000	AED'000
Cash in hand	**617**	362
Balances with UAE Central Bank:		
Current account	**62,626**	91,382
Placement	**125,000**	90,000
Reserve requirements	**184,922**	276,809
	373,165	458,553

The reserve requirements are kept with the UAE Central Bank in AED and USD and cannot be withdrawn without its approval. The level of reserve required changes every month in accordance with the UAE Central Bank directives and is based on the balance of outstanding customer deposits.

6 DUE FROM BANKS

	2018 AED'000	2017 AED'000
Domestic	**77,146**	318,713
Regional	**5,666**	32,486
International	**751,364**	870,722
	834,176	1,221,921
Less: allowance for impairment (note 9)	**(757)**	-
	833,419	1,221,921

The average yield on bank placements was 1.53% per annum (2017: 1.20% per annum).

Part of the balances with banks amounting to AED 312,589 thousand (2017: AED 513,810 thousand) is pledged as collateral with banks against credit facilities. Refer note 12.1 for the detail of credit facilities as at reporting date.

7 LOANS AND ADVANCES, NET

	2018 AED'000	2017 AED'000
Gross loans and advances (secured)	**1,331,176**	1,089,302
Less: allowance for impairment (note 9)	**(902)**	(15,000)
Less: interest in suspense	**(73)**	-
Loans and advances, net	**1,330,201**	1,074,302

The Group does not have any exposures to Abraaj group of companies and/or any of the funds managed by Abraaj group as at the reporting date.

8 INVESTMENTS, NET

	2018
	AED'000
Investment at fair value through profit or loss	
Debt instruments	
Quoted	**39,065**
Equity instruments	
Quoted	**88,539**
Unquoted	**246,279**
	334,818
Total investments designated at fair value through profit or loss	**373,883**
Measured at fair value through other comprehensive income	
Debt instruments	
Quoted	**223,068**
Unquoted	**8,299**
	231,367
Equity instruments	
Quoted	**52,236**
Total investments measured at fair value through other comprehensive income	**283,603**
Measured at amortized cost	
Debt instruments	
Quoted	**785,667**
Total investments measured at amortised cost	**785,667**
Investment in bullion	**605**
Gross investments	**1,443,758**
Less: allowance for impairment (note 9)	**(6,176)**
Investments, net	**1,437,582**

8 INVESTMENTS, NET (continued)

	2017 AED'000
Designated at fair value through profit or loss	
Debt instruments	
Quoted	103,974
Equity	
Quoted	38,135
Unquoted	48,675
	86,810
Total investments designated at fair value through profit or loss	190,784
Available for sale investment	
Debt instruments	
Quoted	1,337,805
Unquoted	298,299
	1,636,104
Equity instruments	
Quoted	135,281
Unquoted	174,509
	309,790
Total available-for-sale investments	1,945,894
Investment in bullion	616
Gross investments	2,137,294
Less: allowance for impairment (note 9)	(26,300)
Investments, net	2,110,994

	2018 AED'000	2017 AED'000
Debt instruments:		
Domestic	**125,296**	536,914
Regional	**108,953**	86,649
International	**821,850**	1,116,515
	1,056,099	1,740,078
Equity instruments:		
Domestic	**61,096**	59,839
Regional	**1,649**	2,120
International	**324,309**	334,641
	387,054	396,600
Investment in bullion	**605**	616
Gross investments	**1,443,758**	2,137,294
Less: allowance for impairment (note 9)	**(6,176)**	(26,300)
Investments, net	**1,437,582**	2,110,994

8 INVESTMENTS, NET (continued)

Part of the proprietary investment portfolio of the Group having a carrying value of AED 430,723 thousand (2017: AED 773,815 thousand) is pledged as collateral with banks against credit facilities. Refer note 12.1 for the detail of credit facilities as at reporting date.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2018, the Group held the following investments measured as follows:

	Total 2018 AED'000	Investments carried at fair value Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Investments carried at amortised cost AED'000
Debt instruments:					
Domestic	125,296	66,675	-	8,299	50,322
Regional	108,953	94,127	-	-	14,826
International	821,850	101,331	-	-	720,519
Equity instruments:					
Domestic	61,096	46,698	801	13,597	-
Regional	1,649	1,649	-	-	-
International	324,309	86,001	219,548	18,760	-
Investment in bullion	605	605	-	-	-
Gross investments	1,443,758	397,086	220,349	40,656	785,667
Less: allowance for impairment (note 9)	(6,176)				
Investments, net	**1,437,582**				

The fair value of debt investments carried at amortised cost amounts to AED 770,348 thousand as at 31 December 2018.

8 INVESTMENTS, NET (continued)

As at 31 December 2017, the Group held the following investments measured as follows:

		Investments carried at fair value			Investments carried at cost
	Total	Level 1	Level 2	Level 3	
	AED'000	AED'000	AED'000	AED'000	AED'000
Debt instruments:					
Domestic	536,914	238,615	-	8,299	290,000
Regional	86,649	86,649	-	-	-
International	1,116,515	1,116,515	-	-	-
Equity instruments:					
Domestic	59,839	45,991	-	13,848	-
Regional	2,120	2,120	-	-	-
International	334,641	118,879	187,002	28,760	-
Investment in bullion	616	616	-	-	-
Gross investments	2,137,294	1,609,385	187,002	50,907	290,000
Less: allowance for impairment (note 9)	(26,300)				
Investments, net	2,110,994				

Investments amounting to Nil (31 December 2017: AED 217 thousand) were transferred from Level 3 to Level 2. The transfers from Level 3 to Level 2 were made when the market for some securities became more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. Since the transfer, these investments have been valued using valuation models incorporating observable market inputs.

The following table shows a reconciliation of the opening and closing amounts of level 3 investments recorded at fair value:

	2018	2017
	AED'000	AED'000
At the beginning of the year	**50,907**	58,691
Remeasurement of impairment under IFRS 9	**(10,000)**	-
Transfer to Level 2	-	(217)
Specific impairment provision on investments	-	(9,000)
Net unrealised gain recognised in other comprehensive income	-	452
Net unrealised loss recognised in income statement	**(251)**	-
Addition on consolidation of an entity	-	981
At the end of the year	**40,656**	50,907

The Group has assessed the sensitivity of the fair value measurement of investments under level 3 due to changes in inputs used. Based on the assessment, no major changes in the fair value of investments under level 3 are noted as at 31 December 2018. Such an assessment is performed on a quarterly basis by reviewing the changes in unobservable inputs which might result in higher or lower fair value measurement.

During 2018, a legal case in which the Group is a plaintiff in respect of an outstanding commercial paper with a gross outstanding value of AED 19.8 million is still in progress. Based on the advice of counsel, management is confident of a positive outcome to the case and recovery of full book value.

9 ALLOWANCE FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2018 AED'000	2017 AED'000
Investments		
Movement in allowances for impairment losses		
Balance at 1 January	**26,300**	15,500
Impairment allowance adjusted against carrying value of investments	**(10,000)**	-
Initial application of IFRS 9	**(12,298)**	-
Restated balance at 1 January	**4,002**	15,500
Net allowance for impairment losses	**2,174**	10,800
	6,176	26,300
Loans and advances		
Movement in allowances for impairment losses		
Balance at 1 January	**15,000**	13,000
Initial application of IFRS 9	**(14,543)**	-
Restated balance at 1 January	**457**	13,000
Net allowance for impairment losses	**445**	2,000
	902	15,000
Due from banks		
Movement in allowances for impairment losses		
Balance at 1 January	**-**	-
Initial application of IFRS 9	**3,099**	-
Restated balance at 1 January	**3,099**	-
Net allowance for impairment losses	**(2,342)**	-
	757	-

Expected credit losses

The analysis of expected credit losses by stage for loans and advances, investment in debt instruments measured at amortised cost and due from banks is as follows:

	2018 AED'000	2017 AED'000
Expected credit losses -Lifetime ECL (Stage 3) / specific impairment provision	**3,000**	-
Expected credit losses- 12-months ECL (Stage 1)	**2,976**	-
Expected credit losses- lifetime ECL (Stage 2)	**1,859**	-
Collective impairment provision - lAS 39	-	41,300
Expected credit losses/ collective impairment provision	**4,835**	41,300
Total expected credit losses / impairment provision	**7,835**	41,300

10 PROPERTY AND EQUIPMENT

	Furniture, computer equipment and artwork AED'000	Motor vehicles AED'000	Computer software AED'000	Work-in-progress AED'000	Total AED'000
Cost					
At 1 January 2018	**12,819**	**83**	**5,132**	**1,625**	**19,659**
Additions	**1,041**	**-**	**146**	**1,125**	**2,312**
Transfers	**2,544**	**-**	**-**	**(2,544)**	**-**
Disposals	**(133)**	**-**	**-**	**-**	**(133)**
At 31 December 2018	**16,271**	**83**	**5,278**	**206**	**21,838**
Accumulated depreciation:					
At 1 January 2018	**8,663**	**83**	**3,289**	**-**	**12,035**
Charge for the year	**1,785**	**-**	**896**	**-**	**2,681**
Disposals	**(116)**	**-**	**-**	**-**	**(116)**
At 31 December 2018	**10,332**	**83**	**4,185**	**-**	**14,600**
Net carrying values:					
At 31 December 2018	**5,939**	**-**	**1,093**	**206**	**7,238**
Cost					
At 1 January 2017	11,085	83	4,543	285	15,996
Additions	858	-	589	2,473	3,920
Transfers	876	-	-	(876)	-
Disposals	-	-	-	(257)	(257)
At 31 December 2017	12,819	83	5,132	1,625	19,659
Accumulated depreciation:					
At 1 January 2017	7,797	82	2,219	-	10,098
Charge for the year	866	1	1,070	-	1,937
At 31 December 2017	8,663	83	3,289	-	12,035
Net carrying values:					
At 31 December 2017	4,156	-	1,843	1,625	7,624

11 OTHER ASSETS

	2018 AED'000	2017 AED'000
Interest receivable	**14,513**	16,112
Other receivables and prepayments	**19,722**	13,858
Derivative financial assets (note 21)	**1,041**	1,401
	35,276	31,371

12 DUE TO BANKS

	2018 AED'000	2017 AED'000
Term deposits	**485,665**	811,140
Repurchase agreements	**137,723**	352,335
Demand and call deposits	**158**	-
	623,546	1,163,475

12.1 Information on collateral

	Balance 2018 AED'000	**Collateral value 2018 AED'000**	Balance 2017 AED'000	Collateral value 2017 AED'000
Term deposits:				
Collateralized by investments	**104,335**	**283,456**	198,711	391,702
Collateralized by due from banks	**281,330**	**312,589**	462,429	513,810
	385,665	**596,045**	661,140	905,512
Repurchase agreements:				
Collateralized by debt instruments	**137,723**	**147,267**	352,335	382,113

The Group has unsecured term deposits amounting to AED 100,000 thousand (2017: AED 150,000 thousand) as at reporting date.

The average cost on deposits and repurchase agreements were 2.61% per annum for the year ended 31 December 2018 (2017: 1.50% per annum).

13 OTHER LIABILITIES

	2018 AED'000	2017 AED'000
Interest payable	**11,515**	10,622
Employees' end of service benefits	**9,150**	7,741
Fees payable	**1,263**	1,693
Derivative financial liability (note 21)	**1,021**	862
Others	**18,403**	19,547
	41,352	40,465

In accordance with the UAE Labour Law, the Group provides for end of service benefits for its expatriate employees. Movements in the liability recognised in the consolidated statement of financial position in respect of end of service benefits are as follows:

	2018 AED'000	2017 AED'000
At 1 January	**7,741**	5,814
Expense recognised in the consolidated income statement	**2,764**	2,597
Amount paid	**(1,355)**	(670)
At 31 December	**9,150**	7,741

14 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises 800,000 ordinary shares of AED 100 each (2017: 800,000 ordinary shares of AED 100 each). The issued and fully paid share capital of the Bank comprises 700,000 ordinary shares of AED 100 each (2017: 700,000 ordinary shares of AED 100 each).

b) Legal reserve

In accordance with the UAE Federal Law No. (2) of 2015 and the Bank's Articles of Association, 10% of the profit for the year is transferred to legal reserve till the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

c) Special reserve

As required under Article 82 of Union Law No. 10 of 1980 and the Bank's Articles of Association, 10% of the profit for the year has been transferred to a special reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

15 INTEREST INCOME

	2018 AED'000	2017 AED'000
Loans and advances	**78,658**	63,151
Bank placements	**5,002**	4,947
	83,660	68,098

16 NET INCOME FROM INVESTMENTS

	2018 AED'000	2017 AED'000
Interest income on investments in debt instruments	**46,424**	60,259
Dividend income	**12,959**	15,831
Net realised gain on disposal of investments measured at amortised cost*	**1,204**	-
Net un-realised (loss)/ gain from investment securities designated as fair value through profit or loss	**(9,615)**	2,131
Net realised gain/ (loss) on disposal of investment securities designated as fair value through profit or loss	**1,495**	(452)
Loss on redemption of investments	**(83)**	-
Custody and transaction fee paid to other financial institutions	**(835)**	(863)
Net realised gain on disposal of available-for-sale investments	**-**	5,026
	51,549	81,932

*Management decided to exit equity and subordinated debt in financial institutions in the Bank's proprietary investment book as it resulted in the Common Equity Tier 1 Capital ("CET1") of the Bank being reduced by the equivalent amount. However, this does not indicate any change to the adopted business model under IFRS 9.

17 FEE, COMMISSION AND OTHER INCOME

	2018 AED'000	2017 AED'000
Fee from custody and advisory services	**36,453**	33,105
Product fees and transaction charges	**11,810**	17,488
Commission and other income	**2,372**	6,561
	50,635	57,154

18 GENERAL AND ADMINISTRATIVE EXPENSES

	2018 AED'000	2017 AED'000
Staff costs	**79,464**	75,673
Depreciation (note 10)	**2,681**	1,937
Rental costs – operating leases	**4,978**	5,077
Consultancy charges	**900**	2,668
Communication and subscriptions	**3,521**	3,955
Others	**5,485**	5,808
	97,029	95,118

19 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2018 **AED'000**	2017 AED'000
Impairment provision on investments	**2,158**	19,800
Impairment provision on loans and advances	**445**	2,000
Impairment provision on due from banks	**(2,342)**	-
Impairment loss on available-for-sale investments	**-**	9
Impairment reversal on available-for-sale investments	**-**	(1,219)
Impairment reversal on investments in bullion	**-**	(72)
	261	20,518

20 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share of AED 52.79 (2017: AED 77.18) is calculated by dividing the profit attributable to the equity holders of the parent of AED 36,954 thousand for the year ended 31 December 2018 (31 December 2017: AED 54,024 thousand) by the weighted average number of shares outstanding during the year of 700,000 of AED 100 each (31 December 2017: 700,000 shares of AED 100 each).

The figure for basic and diluted earnings per share is the same as the Group has not issued any instruments which would have an impact on earnings per share when exercised.

21 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business the Group enters into transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The purpose of derivative financial instruments in the Group's business is to mitigate the risks arising from default, currency and interest fluctuations and other market variables. The Group uses forward foreign exchange contracts and options to mitigate the currency risk on certain investments.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with the notional amounts. The notional amount, recorded gross is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor credit risk.

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional Amount
	31 December 2018	**31 December 2018**	**31 December 2018**	31 December 2017	31 December 2017	31 December 2017
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Derivatives:						
Forward foreign exchange contracts	**304**	**284**	**97,842**	1,093	554	115,842
Foreign exchange Option contracts	**737**	**737**	**161,582**	308	308	98,448
	1,041	**1,021**	**259,424**	1,401	862	214,290

Derivative financial instruments include forward foreign exchange contracts and option contracts. These instruments are entered into for a period of up to five years.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have an impact on the profit or loss of the Group. The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

Derivative product type

Forwards
Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in over-the-counter markets.

Options
Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified year.

Fair value
The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices of actual market transactions and the Group's best estimate of the most appropriate model inputs.

Foreign exchange forward contracts and foreign exchange option contracts are valued using valuation techniques, which employs the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity.

Derivative related credit risk
Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group. With gross–settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honors its obligation, but the counterparty fails to deliver the counter value.

Changes in counterparty credit risk have no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

All the foreign exchange contracts are recorded at fair value under level 2 of the fair value hierarchy.

22 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments and contingent liabilities
Credit-related commitments include commitments to extend credit, letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Letters of credit, guarantees and acceptances commit the Group to make payments on behalf of customers, contingent upon the failure of the customers to perform under the terms of the contract.

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

	2018 AED'000	2017 AED'000
Guarantees	**46,908**	36,032
Unutilised committed credit facilities*	**148,338**	214,044
	195,246	250,076

The Group has commitments of AED 35,698 thousand on account of investment in equity instruments (31 December 2017: AED 15,717 thousand).

* Unutilised committed credit facilities represent a contractual commitment to permit draw downs on a facility within a defined year subject to conditions precedent and termination clauses. As commitments may expire without being drawn down and since conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent exact future cash requirements.

Operating lease commitments:

	2018 AED'000	2017 AED'000
Future minimum lease payments		
Within one year	**4,068**	3,899
After one year but not more than five years	**7,682**	12,365
Total operating lease expenditure contracted for at the end of the reporting year	**11,750**	16,264

23 RELATED PARTY TRANSACTIONS

The Group enters into transactions in the ordinary course of business with related parties, defined as major shareholders, directors, key management personnel and their related companies. All loans and advances to related parties are performing advances and are free of any provision for possible loan losses. Pricing policies and terms of related parties' transactions are approved by the Group's management.

The significant balances outstanding in respect of related parties included in the consolidated financial statements are as follows:

23 RELATED PARTY TRANSACTIONS (continued)

	2018 AED'000	2017 AED'000
Directors, their related parties and key management personnel:		
Loans and advances	**14,999**	8,537
Investments	**21,061**	290,000
Customers' deposits	**543,038**	342,144
Commitments and contingencies	**39,481**	24,655
Other liabilities	**1,936**	2,273

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2018 AED'000	2017 AED'000
Directors, their related parties and key management personnel:		
Interest income	**5,967**	8,496
Interest expense	**(7,941)**	(12,265)
Fee, commission and other income	**2,530**	3,379
General and administrative expenses	**(7,508)**	(6,832)

Outstanding balances at the yearend arise in the normal course of business. For the year ended 31 December 2018, the Group has not recorded any impairment of amounts owed by related parties (2017: Nil).

Compensation of key management personnel:

	2018 AED'000	2017 AED'000
Salaries and other benefits	**11,727**	11,185

24 RISK MANAGEMENT

Introduction
Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Board of Directors holds the ultimate responsibility for the risk exposures. The Group has adopted a risk governance suggesting a "three line of defence approach" to risk management, which involves top management and business lines, strong risk management function, and capable independent internal audit.

The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Group's strategic planning process.

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.

The Board of Directors has the responsibility to monitor the overall risk process within the Group. They also have the overall responsibility for the development of the related strategy and implementing principles, framework, process and limits. The Board is responsible for the fraud and other risk related matters and manages and monitors relevant risk decisions.

Board Risk Committee
Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancement of the Group's risk management framework to best practice standards, monitoring of aggregate risk exposures (credit, market, liquidity, operational, legal, etc.) and compliance with the regulatory requirements.

Board Audit Committee
The primary role of the Board Audit Committee (BAC) is to have an oversight and review of financial audit and internal control issues as well as to oversee the independence and performance of Group's external and internal auditors.

Bank Treasury
Bank Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal Audit
Risk management processes throughout the Group are subject to an internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the BAC.

Risk measurement and reporting systems
Monitoring and controlling risks is primarily performed based on 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. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the BRC and management committees, which includes aggregate credit exposure, liquidity ratios and risk profile changes.

Periodic briefing is given to the relevant members of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

24 RISK MANAGEMENT (continued)

Risk mitigation
As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. The Group also constantly monitors its portfolio and diversify it in order to mitigate risk in relation to concentration of exposure towards a particular business or geographical segment.

Excessive risk concentration
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. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Group. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Group. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using the concept of Expected Loss which requires the following measures,

Probability of Default (PD)
Loss Given Default (LGD)
Exposure at Default (EAD)

Under IFRS 9 expected loss is replaced by Expected Credit Loss (ECL), which is based on macro adjusted PD, LGD & EAD measures. Additionally ECL also captures deterioration and lifetime likelihood of defaults.

Credit risk grading

The Group has an internal credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The SICR is measured as a change in one year probability of default between the date of inception of the facility and the date that the IFRS9 ECL is calculated.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

24 RISK MANAGEMENT (continued)

Credit risk (continued)

- Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Significant increase in credit risk (SICR)

The Group considers a financial asset to have experienced a significant increase in credit risk when a significant change in one year probability of default occurs between the origination date of a specific facility and the date that the IFRS9 ECL is calculated.

<u>Quantitative criteria</u>

Loans and advances:
A borrower experiences a significant increase in probability of default if the following quantitative factors are triggered:

- Accounts being overdue between 30 to 90 days;
- Adverse findings for an account/borrower as per credit bureau data;
- Loan rescheduling before 30 Days Past Due (DPD).

Investments:
- Significant increase in probability of default of the underlying instrument;
- Significant deterioration in credit rating of the underlying instrument.

Due from banks:
- Significant change in the expected performance and behavior of the counterparty.

The Group has not used the low credit exemption for any financial instruments in the year ended 31 December 2018.

<u>Definition of default and credit-impaired assets</u>

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

<u>Quantitative criteria</u>

The borrower is more than 90 days past due on its contractual payments.

<u>Qualitative criteria:</u>

According to the Basel definition, default is considered to have occurred with regard to particular obligors when any one of the following events has taken place:

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

24 RISK MANAGEMENT (continued)

Credit risk (continued)

- The Bank has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Group.
- The obligor is past due more than 90 days on any material credit obligation to the Group.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of twelve months. This period of twelve months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition of a specific facility or whether an asset is considered credit-impaired. The Group has adopted a forward exposure method for computing the ECL for each facility. The Group has opted for a quarterly granular computation of PD, EAD and LGD.

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expected to be owed at the time of default, over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure.
  LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a lifetime basis, where lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Lifetime expected credit losses are expected credit losses resulting from all probable default events over the expected lifetime of the financial instrument. Expected credit losses are the probability-weighted average of credit losses and the weighing factor is the Probability of Default (PD) for a lifetime.

Forward-looking economic information is also included in determining the 12-month and lifetime PD.

There have been no significant changes in estimation techniques or significant assumptions made during the year.

Forward looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the UAE Central Bank and provide the best estimate view of the economy over the next three years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The Group has calculated ECL at an individual instrument level, hence does not require any grouping of instruments in the process of loss calculation.

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements
The table below shows the maximum exposure to credit risk for the components of the statement of financial position (excluding cash in hand and investments in equity instruments and bullion) including guarantees. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, if any.

	2018 AED'000	2017 AED'000
Balances with UAE Central Bank (note 5)	**372,548**	458,191
Due from banks (note 6)	**834,176**	1,221,921
Loans and advances (note 7)	**1,331,176**	1,089,302
Investments in debt instruments (note 8)	**1,056,099**	1,740,078
Other assets (note 11)	**33,269**	29,181
	3,627,268	4,538,673
Guarantees (note 22)	**46,908**	36,032
Total credit risk exposure	**3,674,176**	4,574,705

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment
The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	ECL staging			
	Stage 1 12-month ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Life time ECL AED'000**	**Total AED'000**
As at 31 December 2018				
Balances with UAE Central Bank (note 5)	**372,548**	**-**	-	**372,548**
Due from banks (note 6)	**834,176**	-	-	**834,176**
Loans and advances (note 7)	**1,301,340**	**24,588**	**5,248**	**1,331,176**
Investments in debt instruments (note 8)	**828,964**	**132,649**	**55,421**	**1,017,034**
	3,337,028	**157,237**	**60,669**	**3,554,934**
Guarantees (note 22)	**46,908**	-	-	**46,908**
Gross carrying amount	**3,383,936**	**157,237**	**60,669**	**3,601,842**

Risk concentrations of the maximum exposure to credit risk
Concentration of risk is managed by client/counterparty, by geographical region. The maximum credit exposure to any client or counterparty as of 31 December 2018 was AED 388,548 thousand (2017: AED 307,851 thousand) before taking account of collateral or other credit enhancements.

The Group's financial assets (excluding cash in hand and investments in equity securities) including guarantees, before taking into account any collateral held or other credit enhancements, can be analysed by the following geographical regions:

	2018		2017	
	Assets AED'000	**Guarantees AED'000**	Assets AED'000	Guarantees AED'000
United Arab Emirates	**1,684,756**	**46,908**	2,383,184	36,032
North America	**506,269**	-	289,514	-
Europe	**876,114**	-	941,349	-
GCC & other ME	**289,095**	-	419,915	-
Others	**271,034**	-	504,711	-
	3,627,268	**46,908**	4,538,673	36,032

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and product parameters. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are generally cash, investment securities and real estate properties.

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

The table below details the fair value of the collateral, which is updated regularly:

	Loans and advances	
	2018	2017
	AED'000	AED'000
Against individually impaired loans and advances		
Secured by marketable securities	**-**	-
Secured by real estate	**15,810**	3,850
Total	**15,810**	3,850
Against loans and advances not impaired		
Secured by marketable securities	**1,879,266**	1,524,521
Secured by real estate	**1,008,830**	1,067,213
Secured by cash/deposits	**644,690**	973,558
Total	**3,532,786**	3,565,292

The loan to value ratio of all credit-impaired loans and advances of the Group is below 50%.

Gross carrying amount

The following table explains the changes in the gross carrying amount from 1 January 2018 to 31 December 2018:

	2018			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Loans and advances				
Gross carrying amount as at 1 January 2018	1,087,729	-	1,573	**1,089,302**
Transfers				
Transfer from Stage 1 to Stage 2	(19,090)	19,090	-	-
Transfer from Stage 1 to Stage 3	(3,128)	-	3,128	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated	445,017	4,802	-	**449,819**
Repayment and other movements	(209,188)	696	547	**(207,945)**
Gross carrying amount as at 31 December 2018	**1,301,340**	**24,588**	**5,248**	**1,331,176**

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Gross carrying amount (continued)

	2018			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Due from banks – measured at amortised cost				
Gross carrying amount as at 1 January 2018	1,221,921	-	-	**1,221,921**
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated	-	-	-	-
Repayment and other movements	(387,745)	-	-	**(387,745)**
Gross carrying amount as at 31 December 2018	**834,176**	**-**	**-**	**834,176**

	2018			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Investments – measured at amortised cost				
Gross carrying amount as at 1 January 2018	1,062,242	-	-	**1,062,242**
Transfers				
Transfer from Stage 1 to Stage 2	(128,069)	128,069	-	-
Transfer from Stage 1 to Stage 3	(40,827)	-	40,827	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated	7,282	-	7,216	**14,498**
Repayment and other movements	(283,595)	(6,557)	(921)	**(291,073)**
Gross carrying amount as at 31 December 2018	**617,033**	**121,512**	**47,122**	**785,667**

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Loss allowance

The following table explain the changes in the loss allowance from 1 January 2018 to 31 December 2018:

	2018			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Loans and advances				
Loss allowance as at 1 January 2018	457	-	-	**457**
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated	160	-	-	**160**
Changes in PDs/LGDs/EADs	223	-	62	**285**
Loss allowance as at 31 December 2018	**840**	**-**	**62**	**902**

	2018			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Due from banks – measured at amortised cost				
Loss allowance as at 1 January 2018	3,099	-	-	**3,099**
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Changes in PDs/LGDs/EADs	(2,342)	-	-	**(2,342)**
Loss allowance as at 31 December 2018	**757**	**-**	**-**	**757**

	2018			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Investments – measured at amortized cost				
Loss allowance as at 1 January 2018	4,002	-	-	**4,002**
Transfers				
Transfer from Stage 1 to Stage 2	(337)	337	-	-
Transfer from Stage 1 to Stage 3	(886)	-	886	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated	23	-	330	**353**
Changes in PDs/LGDs/EADs	(1,423)	1,522	1,722	**1,821**
Loss allowance as at 31 December 2018	**1,379**	**1,859**	**2,938**	**6,176**

All guarantees issued by the Group are collaralised by cash.

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of financial assets
The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality of the Group's financial assets (excluding cash in hand and investments in equity instruments and bullion), based on the Group's internal credit rating system.

	Neither past due nor impaired				
	Prime and high grade AED'000	**Standard grade AED'000**	**Sub-standard grade AED'000**	**Past due AED'000**	**Total AED'000**
2018					
Balances with UAE Central Bank	**372,548**	**-**	**-**	**-**	**372,548**
Due from banks	**290,595**	**537,881**	**5,700**	**-**	**834,176**
Loans and advances	**-**	**1,325,928**	**-**	**5,248**	**1,331,176**
Investments in debt instruments	**266,264**	**509,744**	**271,792**	**8,299**	**1,056,099**
Other assets	**13,064**	**14,638**	**3,037**	**2,530**	**33,269**
	942,471	**2,388,191**	**280,529**	**16,077**	**3,627,268**

	Neither past due nor impaired				
	Prime and high grade AED'000	**Standard grade AED'000**	**Sub-standard grade AED'000**	**Past due AED'000**	**Total AED'000**
2017					
Balances with UAE Central Bank	458,191	-	-	-	458,191
Due from banks	548,937	670,142	2,842	-	1,221,921
Loans and advances	-	1,087,729	-	1,573	1,089,302
Investments in debt instruments	538,169	859,523	334,087	8,299	1,740,078
Other assets	-	26,708	-	2,473	29,181
	1,545,297	2,644,102	336,929	12,345	4,538,673

As at the year end, the Group has AED 5,248 thousand (2017: AED 1,573 thousand) of loans and advances which were past due or individually impaired.

Credit risk exposure of the Group's financial assets (excluding cash in hand and investments in equity instruments and bullion) for each internal risk rating.

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

	Moody's equivalent grades	**Total 2018 AED'000**	Total 2017 AED'000
Prime and high grade	Aaa-Aa3	**942,471**	1,545,297
Standard grade	Baa-Baa3	**2,388,191**	2,644,102
Sub-standard grade	Ba-B3	**280,529**	336,929
Past due		**16,077**	12,345
		3,627,268	4,538,673

It is the Group's policy to maintain accurate and consistent risk ratings across the credit and investment portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class as a number of them are based on the Group's internal rating.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind and by maintaining a healthy balance of cash and cash equivalents.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the Central Bank of UAE equal to 14% of demand deposits and 1% of saving deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

Maturities of assets and liabilities at the date of statement of financial position are set out in the table below based on the remaining period to the contractual maturity date without taking account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds.

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Subtotal less than 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Subtotal over 12 months AED'000	Undated AED'000	Total AED'000
31 December 2018									
ASSETS									
Cash and balances with UAE Central Bank	373,165	-	-	373,165	-	-	-	-	373,165
Due from banks, net	833,419	-	-	833,419	-	-	-	-	833,419
Loans and advances, net	1,129,096	92,682	99,830	1,321,608	8,593	-	8,593	-	1,330,201
Investments, net	52,049	84,454	79,771	216,274	826,206	13,618	839,824	381,484	1,437,582
Property and equipment	-	-	-	-	-	-	-	7,238	7,238
Other assets	17,956	5,489	5,199	28,644	2,890	-	2,890	3,742	35,276
Total assets	2,405,685	182,625	184,800	2,773,110	837,689	13,618	851,307	392,464	4,016,881
LIABILITIES AND EQUITY									
Due to banks	623,546	-	-	623,546	-	-	-	-	623,546
Customer deposits	2,344,962	147,481	310,143	2,802,586	78,692	-	78,692	-	2,881,278
Other liabilities	27,084	542	1,440	29,066	3,136	-	3,136	9,150	41,352
Equity	-	-	-	-	-	-	-	470,705	470,705
Total liabilities and equity	2,995,592	148,023	311,583	3,455,198	81,828	-	81,828	479,855	4,016,881
Net liquidity gap	(589,907)	34,602	(126,783)	(682,088)	755,861	13,618	769,479	(87,391)	

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Subtotal less than 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Subtotal over 12 months AED'000	Undated AED'000	Total AED'000
31 December 2017									
ASSETS									
Cash and balances with UAE Central Bank	458,553	-	-	458,553	-	-	-	-	458,553
Due from banks, net	1,105,327	37,594	79,000	1,221,921	-	-	-	-	1,221,921
Loans and advances, net	1,028,878	1,926	40,826	1,071,630	2,672	-	2,672	-	1,074,302
Investments, net	450,336	40,445	82,646	573,427	1,140,155	35,496	1,175,651	361,916	2,110,994
Property and equipment	-	-	-	-	-	-	-	7,624	7,624
Other assets	20,376	-	420	20,796	3,396	227	3,623	6,952	31,371
Total assets	3,063,470	79,965	202,892	3,346,327	1,146,223	35,723	1,181,946	376,492	4,904,765
LIABILITIES AND EQUITY									
Due to banks	1,163,475	-	-	1,163,475	-	-	-	-	1,163,475
Customer deposits	2,892,860	111,263	104,217	3,108,340	23,500	-	23,500	-	3,131,840
Other liabilities	20,709	8,709	83	29,501	3,196	-	3,196	7,768	40,465
Equity	-	-	-	-	-	-	-	568,985	568,985
Total liabilities and equity	4,077,044	119,972	104,300	4,301,316	26,696	-	26,696	576,753	4,904,765
Net liquidity gap	(1,013,574)	(40,007)	98,592	(954,989)	1,119,527	35,723	1,155,250	(200,261)	

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities
The table below summarises the maturity profile of the Group's financial liabilities at the year-end based on remaining contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and, accordingly, the table below does not reflect the expected cash flows based on Group's deposit retention history.

	On demand AED'000	**Less than 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**Total AED'000**
2018					
Due to banks	**-**	**625,144**	**-**	**-**	**625,144**
Customer deposits	**1,200,856**	**1,145,212**	**471,059**	**96,042**	**2,913,169**
Other liabilities	**-**	**27,084**	**1,982**	**12,286**	**41,352**
	1,200,856	**1,797,440**	**473,041**	**108,328**	**3,579,665**

	On demand AED'000	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Total AED'000
2017					
Due to banks	-	1,165,404	-	-	1,165,404
Customer deposits	1,936,946	957,016	218,589	25,038	3,137,589
Other liabilities	-	20,709	8,792	10,964	40,465
	1,936,946	2,143,129	227,381	36,002	4,343,458

Derivatives financial instruments in the above table are indicated under other liabilities at the gross undiscounted cash flows. However, these amounts may be settled gross or net.

The table below shows the contractual expiry by maturity of the Group's contingent liabilities

	On demand AED'000	**Less than 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
2018						
Contingent liabilities	**148,338**	**26,640**	**17,523**	**629**	**2,116**	**195,246**
2017						
Contingent liabilities	214,044	14,852	18,532	508	2,140	250,076

The Group expects that not all of the contingent liabilities will be drawn before expiry of the commitments

24 RISK MANAGEMENT (continued)

Market risk
Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's Assets and Liability Committee.

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

The Board has established levels of interest rate risk by setting interest rate sensitivity limits.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate financial assets and financial liabilities held at the year end. The sensitivity of equity is calculated by revaluing fixed rate financial assets at year-end for the effect of assumed changes in interest rates. The total sensitivity is based on the assumption that there are parallel shifts in the yield curve.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement and equity.

	Impact on net profit 2018 AED'000	**Impact on equity 2018 AED'000**	Impact on net profit 2017 AED'000	Impact on equity 2017 AED'000
Increase in 100 basis points	**(5,064)**	**(2,083)**	(10,147)	(30,576)

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has set limits on positions by currency. Positions are monitored on a daily basis and strategies used to ensure positions are maintained within established limits.

Major currency wise open positions of the Group are as follows:

	2018 Long/(short) AED'000	2017 Long/(short) AED'000
Euro	**875**	410
Pound Sterling	**(26)**	(3)
Swiss Francs	**(691)**	77
US Dollars	**(36,001)**	(242,622)

Since the UAE Dirham is on a fixed parity to the US Dollar, management believes that presently the Group is not exposed to any significant foreign currency risk in respect of the US Dollar.

24 RISK MANAGEMENT (continued)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's equity investment portfolio.

The effect on quoted equity due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in equity price 2018 %	**Effect on equity 2018 AED'000**	Change in equity price 2017 %	Effect on equity 2017 AED'000
New York Stock Exchange	**+/-10**	**2,552**	+/-10	6,068
Abu Dhabi Securities Market	**+/-10**	**587**	+/-10	543
Dubai Financial Market	**+/-10**	**4,726**	+/-10	4,698
Others	**+/-10**	**6,213**	+/-10	6,032

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

25 SEGMENTAL ANALYSIS

For operating purposes, the Group is organised into two major business segments: (a) Investments, which is principally involved in managing the Group's own investment portfolio and provides treasury services; and (b) Banking Services, which principally manages clients' investment portfolios, provides credit facilities, accepts deposits from corporate and individual customers and provides advisory services on corporate finance and capital market transactions. These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds and an equitable allocation of expenses.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

25 SEGMENTAL ANALYSIS (continued)

	Investments		Banking Services		Total	
	2018	2017	**2018**	2017	**2018**	2017
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Revenue *	**59,739**	86,757	**130,015**	115,100	**189,754**	201,857
Inter-segment adjustment	**13,722**	15,155	**(13,722)**	(15,155)	-	-
	73,461	101,912	**116,293**	99,945	**189,754**	201,857
Profit for the year	**7,550**	34,291	**31,160**	22,224	**38,710**	56,515

* Revenue comprises of interest income, net income from investments, fee commission and other income and exchange gain/ (loss) less impairment loss and impairment provision on investments.

	Investments		Banking Services		Total	
	2018	2017	**2018**	2017	**2018**	2017
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Segment assets	**2,666,262**	3,806,748	**1,350,619**	1,098,017	**4,016,881**	4,904,765
Segment liabilities and equity	**642,102**	1,368,149	**3,374,779**	3,536,616	**4,016,881**	4,904,765

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book-value under the historical cost method and fair value estimates.

Determination of fair value and fair value hierarchy:
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

26 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

The following table shows an analysis of derivatives recorded at fair value by level of the fair value hierarchy.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2018				
Financial assets				
Foreign exchange contracts (note 21)	**-**	**1,041**	**-**	**1,041**
Financial liabilities				
Foreign exchange contracts (note 21)	**-**	**1,021**	**-**	**1,021**
31 December 2017				
Financial assets				
Foreign exchange contracts (note 21)	-	1,401	-	1,401
Financial liabilities				
Foreign exchange contracts (note 21)	-	862	-	862

Fair value hierarchy of investments is disclosed under note 8.

The table below sets out the Group's classification of each class of financial assets and liabilities, and their carrying values before provision, if any.

	At fair value through profit or loss AED'000	At fair value through OCI AED'000	Loans and receivables AED'000	Amortized cost AED'000	Total AED'000
2018					
Financial assets					
Cash and balances with UAE Central Bank	**-**	**-**	**-**	**373,165**	**373,165**
Due from banks	**-**	**-**	**-**	**834,176**	**834,176**
Loans and advances	**-**	**-**	**1,331,176**	**-**	**1,331,176**
Investments excluding bullion	**373,883**	**283,603**	**-**	**785,667**	**1,443,153**
Others	**1,041**	**-**	**-**	**32,228**	**33,269**
	374,924	**283,603**	**1,331,176**	**2,025,236**	**4,014,939**
Financial liabilities					
Due to banks	-	-	-	**623,546**	**623,546**
Customer deposits	-	-	-	**2,881,278**	**2,881,278**
Others	**1,021**	**-**	**-**	**31,181**	**32,202**
	1,021	**-**	**-**	**3,536,005**	**3,537,026**

26 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

	At fair value through profit or loss AED'000	Available for sale AED'000	Loans and receivables AED'000	Amortized cost AED'000	Total AED'000
2017					
Financial assets					
Cash and balances with UAE Central Bank	-	-		458,553	458,553
Due from banks	-	-	-	1,221,921	1,221,921
Loans and advances	-	-	1,089,302	-	1,089,302
Investments excluding bullion	190,784	1,945,894	-	-	2,136,678
Others	1,401	-	-	27,839	29,240
	192,185	1,945,894	1,089,302	1,708,313	4,935,694
Financial liabilities					
Due to banks	-	-	-	1,163,475	1,163,475
Customer deposits	-	-	-	3,131,840	3,131,840
Others	862	-	-	31,863	32,725
	862	-	-	4,327,178	4,328,040

With the exception of debt investments measured at amortised cost (where the fair values are disclosed in note 8), management considers that the carrying amounts of financial assets and liabilities measured at amortised cost in the consolidated financial statements approximate their fair values as these are substantially short term in nature and carry market rates of interest.

27 CAPITAL ADEQUACY

The Central Bank of UAE ('CBUAE') supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Effective from 2017, the capital is computed at a Group level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

Minimum Capital Requirements
The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital.

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

For 2018, CCB is effective in transition arrangement and is required to keep at 1.88% of the Capital base and from 2019; it will be required to keep at 2.5% of the Capital base. CCyB is not in effect and is not required to keep for 2018.

Regulatory Capital
The Bank's capital base is divided into two main categories, namely CET1 and Tier 2 ('T2'), depending on their characteristics.

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- T2 capital comprises undisclosed reserves.

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

	2018 **AED'000**	2017 AED'000
Common Equity Tier 1 Capital		
Issued capital	**70,000**	70,000
Legal reserve	**35,000**	35,000
Special reserve	**44,251**	40,556
Retained earnings	**288,034**	257,658
Fair value reserve	**1,852**	8,262
Total CET I capital	**439,137**	411,476
Tier II Capital		
Eligible general provisions	**20,817**	31,505
Total tier II capital	**20,817**	31,505
Total Eligible capital	**459,954**	442,981
Risk Weighted Exposure		
Credit risk	**1,665,369**	2,520,387
Market risk	**180,718**	241,551
Operational risk	**281,959**	228,146
Total	**2,128,046**	2,990,084

27 CAPITAL ADEQUACY (continued)

	2018	2017
Capital Ratio		
Total capital ratio	**21.61 %**	14.81 %
Tier I ratio	**20.64 %**	13.76 %
CET I ratio	**20.64 %**	13.76 %

Capital management policies, stress testing and capital management

The Bank has a robust capital adequacy assessment, monitoring and reporting process and is pro-actively advancing its internal capital adequacy assessment framework along the lines of Basel III.

The forward-looking internal capital adequacy assessment process (ICAAP) is based on the Bank's financial budget projections. Various stress scenarios are considered to assess the strength of the Bank's capital adequacy over a three year period.

The implemented ICAAP is based on Economic Capital and defines adequacy as balance of capital supply, in the form of available financial resources, and capital demand, in the form of cushion against unexpected losses. The Bank's quantification models have been subject to external scrutiny and validation.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

28 FIDUCIARY ASSETS

	2018 AED'000	2017 AED'000
Balance of fiduciary assets	**5,676,901**	5,628,379

The Group provides custody services for its customers' assets. These assets are held by the Group in a fiduciary capacity and are, accordingly, not included in these consolidated financial statements as assets of the Group.

29 DE-CONSOLIDATION OF A SUBSIDIARY

EIB Enhanced Liquidity Fund Limited (the Company), a SPE is de-consolidated in these consolidated financial statements. The Company has launched a liquidity fund in 03 June 2015. The Bank has been appointed as the Investment Manager and Custodian of the Fund. The Company is managed by EIB Investment Management (Cayman) Limited, which is a 100% subsidiary of EIB Investment Co. LLC. The Company is an open-ended, multi-class investment company structured to operate as an open-ended unit trust or mutual fund and is an exempted company with limited liability formed under the laws of the Cayman Islands.

The Group reassessed the control definition under IFRS 10 over the Company and concluded that the control ceased to exist from 30 September 2018. Accordingly, the Company is no longer consolidated in the Group from the effective date.

29 DE-CONSOLIDATION OF A SUBSIDIARY (continued)

The carrying amount of assets and liabilities of the subsidiary as at the date of de-consolidation were:

	30 September 2018 AED'000
ASSETS	
Due from banks	**17,679**
Investments, net	**134,787**
Other assets	**5,774**
TOTAL ASSETS	**158,240**
LIABILITIES AND EQUITY	
LIABILITIES	
Other liabilities	**15,375**
TOTAL LIABILITIES	**15,375**
EQUITY	
Share capital	**140,025**
Retained earnings	**2,840**
TOTAL EQUITY	**142,865**
TOTAL LIABILITIES & EQUITY	**158,240**

The contribution of the Company to the income statement of the Group for the year from 1 January 2018 to 30 September 2018 was as follows:

	30 September 2018 AED'000
Net interest income and net income from investments	**5,373**
Operating income	**5,267**
Profit for the year	**3,677**

30 SUBSEQUENT EVENTS

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements.

31 COMPARATIVE FIGURES

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these consolidated financial statement. Further, consolidated statement of cash flows for the year ended 31 December 2017 has been restated and statutory cash deposit with the Central Bank of UAE which was classified as cash and cash equivalent has been reclassified as non-cash and cash equivalent to conform to the presentation in the current year.