Invest bank P.S.C.

Consolidated financial statements

31 December 2017

Registered office

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

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Contents	*Page*

Invest Bank P.S.C.

Board of Directors' report

The Board of Directors has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2017.

Incorporation and registered office

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

Principal activities

Invest Bank is principally engaged in the business of corporate and retail banking through its network of branches located in the Emirate of Sharjah, Dubai, Abu Dhabi, Ras Al Khaimah and Fujairah. Invest Bank also carries out banking activities through a branch in Beirut, Lebanon licensed by Banque Du Liban (the 'CB Lebanon").

Financial position and results

The financial position and results of the Group for the year ended 31 December 2017 are set out in the accompanying consolidated financial statements.

The Bank posted operating income of AED 795 million compared to AED 741 million, an increase of 7%, while the net operating profit before impairment loss reached AED 595 million, an increase of 8% compared to prior year.

Total net interest income increased by 5% to reach AED 534 million compared to 2016, whereas Non interest income reached to AED 261 million increasing by 13% from 2016.

Total assets reached AED 16.9 billion. Loans and advances reached AED 12.5 billion, whereas customer deposits reached AED 13.6 billion an increase of 12% compared to last year.

In 2017, the Bank has recognized provisions for credit losses of AED 872 million as part of its prudent approach to address continued market challenges as result of the sluggish economic environment and in preparation for IFRS 9, which will be implemented in 2018. Consequently, the full year results have been impacted with the Bank reporting a net loss of AED 278 million.

Directors

The following were the Directors of the Bank for the year ended 31 December 2017:

Chairman:	Mr. Omran Abdulla Omran Taryam
Deputy Chairman:	Mr. Sohail Faris Ghanim Ateish Al Mazrui
	Mr. Amjad Mohamed Yusri Mahmoud Al Dwaik
Members:	H.E. Shiekh Faysal Khaled Sultan Al Qassimi
	Mr. Dhafer Sahmi Jaber Mufreh Al Ahbabi
	Mr. Abdul Ghaffar Ghuloom Hussain Abdulla
	Mr. Robert Douglas Dowie

On behalf of the Board

Mr. Omran Abdulla Omran Taryam
Chairman

KPMG Lower Gulf Limited
2002, Al Batha Tower
Buhaira Corniche, Sharjah, UAE
Tel. +971 (6) 517 0700, Fax +971 (6) 572 3773

Independent Auditors' Report

To the Shareholders of Invest Bank P.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Invest Bank P.S.C. ("the Bank") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters (continued)

Impairment of loans and advances

Refer to note 8 and 27(b) of the consolidated financial statements.

The carrying value of loans and advances, net of impairment allowances represents 73% of total assets of the Group. Impairment on loans and advances is a subjective area due to the level of judgment applied by management in determining such impairment allowance. Due to the significance of loans and advances and the related estimation uncertainty, this is considered a key audit matter.

During the year, the Bank has significantly increased impairment allowances on reassessing the overall loans and advances portfolio and by applying judgmental overlays, specifically in case of those customers who are impacted by continuing macro-economic stress caused by contraction in liquidity. The Bank has recognized net impairment losses of AED 872 million in 2017 (AED 280 million in 2016) towards certain high risk accounts.

Professional judgment is applied to determine appropriate parameters and assumptions used to calculate both specific and collective impairment allowance. For example, the assumption to determine incurred but not reported losses, the valuation of collateral for loans and advances and the viability of future cash flows of loans and advances to customers. In addition, we also focused on individually significant exposures that either continued to be, have become, or are at risk of being individually impaired.

Our response

Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans and advances, and evaluating the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments, and assessing the adequacy of impairment allowances for individually assessed loans and advances.

We used our knowledge to assess the trends in the local credit environment and considered the likely impact on the Group's exposures to focus our testing on key risk areas.

1) For corporates, our procedures included:

- Testing the key controls over the internal credit grading and monitoring process, to assess if the risk grades allocated to counterparties were appropriately identified and updated, on a timely basis;
- Substantive testing of a selection of credit grades to test the appropriateness of the credit grades at a given point in time; and

Key Audit Matters (continued)

Impairment of loans and advances (continued)

Our response (continued)

- Performing credit assessments for a sample of loans and advances. We assessed the reasonableness of the forecast of recoverable cash flows, realisation of collateral and other possible sources of repayment. We compared key assumptions to progress against business plans and our own understanding of the relevant industries and business environment. We also compared them, where possible, to externally derived evidence such as business performance and real estate valuations for assessing the appropriateness of the collateral values held by the Group.

2) For retail customers, the impairment process is based on models accounting for number of days past due on each customer. Our procedures included understanding management's basis for determining whether a loans and advances balance is impaired and assessed the reasonableness using our understanding of the Group's loans and advances portfolios and our broader industry knowledge.

3) For Portfolio impairment provision (collective provision), our procedures included:

- Testing on key management controls over the impact of underlying data into the models;

- Evaluating the methodology and the key assumptions and assessing the appropriateness of the emergence period used in determining the estimate and wherever possible, we compare the key assumptions used to externally available industry, financial and economic data; and

- For judgmental overlays, we challenged management to provide objective evidence that the overlays were appropriate.

4) For the key underlying systems used for the processing of transactions, we involved our information technology specialists to test a selection of automated controls within these systems.

5) Assessing whether the consolidated financial statement disclosures appropriately reflect the Group's exposure to credit risk.

Valuation of investment properties

Refer to note 10 and 25 of the consolidated financial statements.

The valuation of investment properties acquired in settlement of debt is determined through the application of an appropriate valuation technique which requires management to exercise professional judgement in determining appropriate assumptions and inputs. The management has used an external Royal Institution of Chartered Surveyors (RICS) certified valuer to assist in determining the fair value of all significant investment properties.

Key Audit Matters (continued)

Valuation of investment properties (continued)

Due to the significance of these properties and the related estimation uncertainty, the general slowdown in the UAE real estate sector and the potential impact on the consolidated statement of profit or loss, this is considered a key audit matter.

Our response

- We assessed the competence, independence and integrity of the external valuers and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;

- We obtained the external valuation reports for a sample of properties and assessed whether the valuation approach is in accordance with the requirement of IFRS 13 in determining the carrying value in the consolidated statement of financial position;

- We carried out procedures, on a sample basis, to test whether property specific data supplied to the external valuers by management reflected the underlying property records held by the Group.

- We assessed the reasonableness of any adjustments/assumptions used by the valuers and the reasonableness of the present value calculation rates/capitalization rates applied on income streams generated by such properties; and

- Based on the outcome of our evaluation, we determined the adequacy of the disclosure in the consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report.

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

Other information (continued)

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

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

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

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

Auditors' 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 auditors' 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 and explanations 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, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- as disclosed in note 7 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2017;
- note 22 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- 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 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Articles of Associations, which would materially affect its activities or its consolidated financial position as at 31 December 2017; and
- note 28 to the consolidated financial statements discloses the social contributions made during the year.

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

KPMG Lower Gulf Limited

V.N. Malhotra

Vijendra Nath Malhotra
Registered Auditor Number: 48
Dubai, United Arab Emirates
Date: 07 MAR 2018

Invest bank P.S.C.
Consolidated statement of financial position
as at 31 December 2017

	Note	2017 AED '000	2016 AED '000
Assets			
Cash and deposits with central banks	*5*	**2,261,183**	1,863,727
Due from banks	*6*	**398,604**	562,197
Investment securities	*7*	**544,939**	705,651
Loans and advances to customers	*8*	**12,465,634**	11,953,525
Property and equipment	*9*	**114,413**	111,440
Other assets	*10*	**1,164,452**	928,767
Total assets		**16,949,225**	**16,125,307**
Liabilities			
Due to banks	*11*	**2,827**	329,002
Deposits from customers	*12*	**13,594,128**	12,176,685
Other liabilities	*13*	**812,363**	658,105
Total liabilities		**14,409,318**	**13,163,792**
Equity			
Share capital	*14*	**1,588,125**	1,588,125
Legal reserve	*14*	**450,688**	450,688
Special reserve	*14*	**450,688**	450,688
Fair value reserve		**(97,213)**	(84,470)
Retained earnings		**147,619**	556,484
Total equity		**2,539,907**	**2,961,515**
Total liabilities and equity		**16,949,225**	**16,125,307**

The notes on pages 15 to 63 are an integral part of these consolidated financial statements.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 07 MAR 2018 and signed on its behalf by:

General Manager

Chairman

The independent auditors' report is set out on page 2 to 9.

Invest bank P.S.C.
Consolidated statement of profit or loss
for the year ended 31 December 2017

	Note	**2017** **AED '000**	2016 AED '000
Operating income			
Interest income	*15*	**847,287**	769,583
Interest expense	*15*	**(312,993)**	(258,484)
Net interest income		**534,294**	**511,099**
Net fees and commission income	*16*	**208,270**	199,407
Net income from foreign currencies		**19,919**	19,944
Other income	*17*	**32,532**	10,600
Total operating income		**795,015**	**741,050**
Operating expenses			
General and administrative expenses	*18*	**(188,490)**	(177,341)
Depreciation and amortisation		**(11,781)**	(11,564)
Total operating expenses		**(200,271)**	**(188,905)**
Profit before impairment loss		**594,744**	**552,145**
Net impairment loss	*19*	**(872,489)**	(280,434)
(Loss) / profit for the year		**(277,745)**	**271,711**
(Loss) / earnings per share (UAE Dirhams)	*20*	**(0.175)**	0.171

The notes on pages 15 to 63 are an integral part of these consolidated financial statements

The independent auditors' report is set out on page 2 to 9.

Invest bank P.S.C.
Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2017

	2017 AED '000	2016 AED '000
(Loss) / profit for the year	(277,745)	271,711
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Change in fair value of financial assets measured at fair value through other comprehensive income (FVTOCI)	(12,743)	(14,126)
Total items that will not be reclassified to profit or loss	(12,743)	(14,126)
Total other comprehensive loss	(12,743)	(14,126)
Total comprehensive (loss) / income for the year	(290,488)	257,585

The notes on pages 15 to 63 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 2 to 9.

Invest bank P.S.C.
Consolidated statement of changes in equity
for the year ended 31 December 2017

	Share capital AED '000	Legal reserve AED '000	Special reserve AED '000	Fair value reserve AED '000	(Accumulated loss) retained earnings AED '000	Total AED '000
Balance at 1 January 2017	**1,588,125**	**450,688**	**450,688**	**(84,470)**	**556,484**	**2,961,515**
Total comprehensive income						
Loss for the year	-	-	-	-	(277,745)	(277,745)
Other comprehensive income						
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	(12,743)	-	(12,743)
Total other comprehensive loss	-	-	-	(12,743)	-	(12,743)
Total comprehensive loss for the year	-	-	-	(12,743)	(277,745)	(290,488)
Directors remuneration	-	-	-	-	(2,800)	(2,800)
Transaction with owners of the Bank						
Cash dividend paid (note 14)	-	-	-	-	(128,320)	(128,320)
Balance at 31 December 2017	**1,588,125**	**450,688**	**450,688**	**(97,213)**	**147,619**	**2,539,907**
Balance at 1 January 2016	**1,588,125**	**423,517**	**423,517**	**(70,344)**	**459,274**	**2,824,089**
Total comprehensive income						
Profit for the year	-	-	-	-	271,711	271,711
Other comprehensive income						
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	(14,126)	-	(14,126)
Total other comprehensive loss	-	-	-	(14,126)	-	(14,126)
Total comprehensive income for the year	-	-	-	(14,126)	271,711	257,585
Transfers to reserves (note 14)	-	27,171	27,171	-	(54,342)	-
Directors remuneration	-	-	-	-	(1,050)	(1,050)
Transaction with owners of the Bank						
Cash dividend paid (note 14)	-	-	-	-	(119,109)	(119,109)
Balance at 31 December 2016	**1,588,125**	**450,688**	**450,688**	**(84,470)**	**556,484**	**2,961,515**

The notes on pages 15 to 63 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 2 to 9.

Invest bank P.S.C.
Consolidated statement of cash flows
for the year ended 31 December 2017

	Note	2017 AED '000	2016 AED '000
Cash flows from operating activities			
(Loss) / profit for the year		(277,745)	271,711
Adjustments for:			
Depreciation		11,781	11,564
Amortisation of premium on bonds		495	2,998
Net gain on investment securities		(1,278)	(1,549)
Fair value loss on investment properties		9,000	24,000
Net impairment loss		872,489	280,434
		614,742	589,158
Changes in time deposits with Central bank maturing after three months		405,000	(180,000)
Changes in time deposits with banks maturing after three months		100,000	1,998
Change in loans and advances to customers		(1,384,598)	(1,332,810)
Change in other assets		(123,203)	(36,574)
Change in time deposits with banks maturing after three months		-	(7,346)
Change in deposits from customers		1,417,443	845,399
Change in other liabilities		154,258	(82,284)
Directors' remuneration paid		(2,800)	(1,050)
Net cash generated from / (used in) operating activities		1,180,842	(203,509)
Cash flows from investing activities			
Purchase of property and equipment		(14,754)	(4,363)
Purchase of investment securities		(4,576)	-
Proceeds from sale/redemption of investment securities		31,846	81,482
Net cash generated from investing activities		12,516	77,119
Cash flows from financing activity			
Cash dividend paid		(128,320)	(119,109)
Net cash used in financing activity		(128,320)	(119,109)
Net increase / (decrease) in cash and cash equivalents		1,065,038	(245,499)
Cash and cash equivalents at 1 January		1,582,740	1,828,239
Cash and cash equivalents at 31 December	*21*	2,647,778	1,582,740

The notes on pages 15 to 63 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 2 to 9.

1 Legal status and activities

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

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

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

The consolidated financial statements as at and for the year ended 31 December 2017 comprise the Bank and its subsidiary (together referred to as "the Group").

2 Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and applicable provisions of UAE Federal law No. 2 of 2015.

b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following which are stated at fair value:
- Investment properties;
- Financial instruments at fair value through profit or loss; and
- Financial instruments at fair value through other comprehensive income.

c) Functional and presentation currency

These consolidated financial statements have been presented using UAE Dirham ("AED"), which is the Bank's functional and presentation currency. Except as otherwise indicated, financial information presented in AED has been rounded to the nearest thousand.

d) Use of estimates and judgments

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

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

2 Basis of preparation *(continued)*

d) *Use of estimates and judgments (continued)*

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 26.

3 Summary of significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except for the mandatory adoption of new accounting standards mentioned in note 3(y).

a) Basis of consolidation

Subsidiary
A subsidiary is an investee controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of a subsidiary are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

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

b) Interest income and expense

Interest income and interest expense are recognised in consolidated statement of profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs, and all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the consolidated statement of profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expenses; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net income from investments.

Fair value changes on the other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at Fair Value Through Profit and Loss (FVTPL) are presented in net income from foreign currencies and other income in the consolidated statement of profit or loss.

3 Summary of significant accounting policies *(continued)*

c) Fees and commission income and expense

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

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

d) Dividend income

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

e) Financial assets

Recognition

The Group initially recognises financial assets such as loans and advances and debt securities on the date at which they are originated. All other financial assets (including assets designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

A financial asset is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

Classification

At inception a financial asset is classified as measured at amortised cost or fair value.

Amortised cost

A financial asset qualifies for amortised cost measurement only if it meets both of the following two conditions:
- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this reflect the best way the business is managed and information is provided to the management.

3 Summary of significant accounting policies *(continued)*

e) Financial assets *(continued)*

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focus on earning contractual interest income;
- the degree of frequency of any expected asset sales;
- the reason of any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

The Group has designated certain financial assets at fair value through profit or loss because designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial assets at FVTOCI

At initial recognition the Group makes an irrevocable election (on an instrument-by-instrument basis) to designate investments in certain equity instruments at FVTOCI (fair value through other comprehensive income). Designation to FVTOCI is not permitted if the equity instrument is held for trading.

Dividend from such equity instruments are recognised in the consolidated statement of profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets measured at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gain and losses arising from changes in the fair value recognised in the consolidated statement of profit or loss and other comprehensive income.

Gains and losses on such equity instruments are never reclassified to consolidated statement of profit or loss and no impairment is recognised in profit or loss.

Financial assets are not reclassified subsequent to their initial recognition, except when the Group changes its business model for managing financial assets.

Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as financial assets at fair value through profit or loss, unless the Group designates them as an investment that is not held for trading and are accordingly carried as at fair value through other comprehensive income (FVTOCI).

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking.

3 Summary of significant accounting policies *(continued)*

e) Financial assets *(continued)*

Financial assets that do not meet the amortised cost criteria are measured at FVTPL or FVOCI. In addition, financial assets that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. Financial assets may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis.

Financial assets are initially recognised and subsequently measured at fair value, with any gains or losses arising in re-measurement recognised in the consolidated statement of profit or loss. All directly attributable costs are charged to consolidated statement of profit or loss.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated statement of profit or loss when Group's right to receive is established.

Impairment of financial assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost are impaired. A financial asset or group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows relating to the asset that can be estimated reliably. The Group considers evidence of impairment at both a specific and collective level.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indication that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse change in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Specific impairment

At each reporting date, the Group assesses on a case-by-case basis whether there is any objective evidence that an asset is impaired. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset, in this case the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss is measured as follows:

a) If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

b) If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

3 Summary of significant accounting policies *(continued)*

e) Financial assets *(continued)*

Collective impairment

Impairment is determined on a collective basis for two different scenarios:

- for loans subject to individual assessment to cover losses which have been incurred but have not yet been identified; and
- for homogeneous groups of loans that are not considered individually significant.

In assessing collective impairment the Group uses statistical modeling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off and/or any event resulting in a reduction in impairment loss, decreases the net amount of the provision for loan impairment in the consolidated statement of profit or loss.

Impairment losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

De-recognition of financial assets

The Group derecognises a financial asset when the contractual right to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risk and rewards of the ownership are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control on the financial asset. Any interest in transferred financial assets that qualify for derecognition that is carried or retained by the Group is recognised as separate asset or liability in the consolidated statement of financial position. On derecognition of financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in the consolidated statement of profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the financial assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfer of assets with retention of all or substantially all risks and rewards include securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset but it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the services.

3 Summary of significant accounting policies *(continued)*

f) Financial liabilities and equity instruments issued by the Group

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

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

Financial liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Group initially recognises financial liabilities such as deposits on the date at which they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

Financial liabilities at FVTPL
Financial liabilities are classified at FVTPL where the financial liability is either held for trading or it is designated at FVTPL and measured at fair value.

Other financial liabilities
Other financial liabilities including Group borrowings and customers' deposits are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

De-recognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus, in case of financial assets, any reduction for impairment.

Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated statement of financial position, with transaction costs recognised in the consolidated statement of profit or loss. All changes in fair value are recognised as part of other income in the consolidated statement of profit or loss.

3 **Summary of significant accounting policies *(continued)***

f) **Financial liabilities and equity instruments issued by the Group (continued)**

Designation at fair value through profit or loss

The Group designates financial assets and liabilities at fair value through profit or loss in either of the following circumstances:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; and
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

g) **Offsetting**

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

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

h) **Fair value measurement principles**

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the consolidated statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

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

3 Summary of significant accounting policies *(continued)*

h) Fair value measurement principles (continued)

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

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

i) Derivative financial instruments - Other non trading derivatives

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

j) Foreign currency

(i) Foreign currency transactions

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

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

Non monetary assets and liabilities that are measured at fair value in a foreign currency are translated to UAE Dirhams at the spot exchange rate at the date un which the fair value is determined. Non monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

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

(ii) Foreign operations

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

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

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in OCI, and accumulated in the translation reserve within equity.

3 Summary of significant accounting policies *(continued)*

k) Property and equipment

(i) Recognition and measurement

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

(ii) Subsequent cost

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

(iii) Depreciation

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

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

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

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

l) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Group holds some investment property acquired through the enforcement of security over loans and advances. Invesment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in the consolidated statement of profit or loss. The Group determines fair value on the basis of valuation provided by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

3 Summary of significant accounting policies *(continued)*

m) Staff terminal benefits

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

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

n) Provisions

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

o) Financial guarantees and loan commitments

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

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

p) Earnings per share

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

q) Cash and cash equivalents

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

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

3 Summary of significant accounting policies *(continued)*

***r)* Loans and advances to customers**

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

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

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

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

***s)* Investment securities**

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

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

- they are held within a business model with an objective to hold assets in order to collect contractual cash flow and the contractual terms of financial assets give rise, on specific dates, to cash flows that are solely payments of principal and interest; and

- they have not been designated previously as measured at fair value through profit or loss.

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

Gains and losses on such equity instruments are never reclassified to consolidated statement of profit or loss and no impairment is recognised in the consolidated statement of profit or loss.

***t)* Dividend on ordinary shares**

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

***u)* Share capital**

Ordinary shares

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

3 Summary of significant accounting policies *(continued)*

v) Operating leases

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

w) Impairment of non-financial assets

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

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

x) Segment reporting

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

y) Standards and interpretation adopted for accounting periods beginning on 1 January 2017

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017. The changes did not have a material impact on the Group's consolidated financial statements.

- Disclosure initiatives (Amendment to IAS 7)
- Annual improvements to IFRSs 2014-2016 cycle – various standards (Amendment to IFRS 12)

z) New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however the Group has not adopted the following new or amended standards and have not been applied these in preparing consolidated financial statements.

IFRS 15	Revenue from Contracts with Customers.	(effective 1 January 2018)
IFRS 9	Financial instruments (2015).	(effective 1 January 2018)
IFRS 16	Leases	(effective 1 January 2019)
IAS 40	Investment properties	(effective 1 January 2018)

3 Summary of significant accounting policies *(continued)*

z) New Standards and Interpretations not yet adopted (continued)

IFRS 15 Revenue from Contracts with Customers

On 28 May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces the previous revenue standard IAS 18 Revenue, and the related Interpretations on revenue recognition. The standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards and provides a single principle based framework to be applied to all contracts with customers that are in scope of the standard. Under the new standard revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. The standard introduces a new five step model to recognize revenue as performance obligations in a contract are satisfied. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments, and as such will impact the businesses that earn fee and commission revenue.

On 12 April, 2016, the IASB issued amendments to IFRS 15 Revenue from Contracts with Customers. The amendments provide additional clarification on the identification of a performance obligation in a contract, determining the principal and agent in an agreement, and determining whether licensing revenues should be recognized at a point in time or over a specific period. The amendments also provide additional practical expedients that can be used on transition to the standard.
The Bank will adopt the standard and its amendments as of 1 January, 2018 and plans to use the modified retrospective approach. Under this approach, the Bank will recognize the cumulative effect of initially applying the standard as an adjustment to the opening balances of retained earnings as of 1 January, 2018, without restating comparative periods. Additional disclosures will be required in order to explain any significant changes between reported results and results had the previous revenue standard been applied.

The standard does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Bank's revenue, including interest income, interest expense, trading revenue and securities gains which are covered under IFRS 9 Financial Instruments. The implementation of the standard is being led by the Finance Department in coordination with the business segments. The areas of focus for the Bank's assessment of impact are fees and commission income. The Bank has been working to identify and review the customer contracts within the scope of the new standard. While the assessment is not complete, the timing of the Bank's revenue recognition of fees and commissions within the scope of this standard is not expected to materially change. The Bank is also evaluating the additional disclosures that may be relevant and required.

IFRS 9 Financial Instruments

On 24 July, 2014, the IASB issued IFRS 9 Financial Instruments ("the Standard"), which will replace IAS 39. The Standard covers three broad topics: Classification and Measurement, Impairment and Hedging.

Governance and project management

The adoption of IFRS 9 is a significant initiative for the Bank, involving substantial finance, risk management and technology resources. The project is managed through a project team comprising finance, technology, risk management and the business units. The Bank's existing system of internal controls will be refined and revised where required to meet all the requirements of IFRS 9. The Bank has applied many components of its existing governance framework to ensure that appropriate validations and controls will be in place over new key processes and significant areas of judgment. Adoption of IFRS 9 in 2018 has resulted in revisions to procedures, changes and amendments to internal control documents, applicable credit risk manuals, development of new risk models and associated methodologies and new processes within risk management. Periodic reporting on the progress against plan and results of parallel run was provided to Bank senior management.

3 Summary of significant accounting policies *(continued)*

z) New Standards and Interpretations not yet adopted (continued)

IFRS 9 Financial Instruments (continued)

The following is a summary of some of the more significant items that are likely to be important in understanding the impact of the implementation of IFRS 9:

Classification and measurement
The Group has already adopted the classification and measurement requirements of IFRS 9 and as such, there will be no material impact on opening equity as at 1st January 2018 on account of changes in classification and measurement requirements of IFRS 9. A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Hedge Accounting

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting.

Impairment
The adoption of IFRS 9 will have a significant impact on the Bank's impairment methodology. The IFRS 9 expected credit loss (ECL) model is forward looking compared to the current incurred loss approach. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. ECL should reflect an unbiased, probability-weighted outcome as opposed to the single best estimate allowed under the current approach. The probability-weighted outcome considers multiple scenarios based on reasonable and supportable forecasts.

IFRS 9 Impairment model uses a three stage approach based on the extent of credit deterioration since origination:

Stage 1 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity. This Stage 1 approach is different than the current approach which estimates a collective allowance to recognize losses that have been incurred but not reported on performing loans.

Stage 2 When a financial asset experiences a SICR subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Provisions are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3 Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

3 Summary of significant accounting policies *(continued)*

z) New Standards and Interpretations not yet adopted (continued)

IFRS 9 Financial Instruments (continued)

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgement are:

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank mainly compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant . This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

Macroeconomic factors and FLI are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank will use three scenarios that will be probability weighted to determine ECL, leveraging its existing Enterprise Wide Stress Test modeling framework.

Experienced credit judgment

The Bank's ECL allowance methodology, requires the Bank to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

Expected Life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Definition of Default and Write-off

Under IFRS 9, the Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group.

The Bank does not expect to rebut the presumption in IFRS 9 that loans which are 90 days past due are in default for retail loans, with the exception of credit cards receivables that are treated as defaulted when 180 days past due. The policy on the write-off of loans remains unchanged.

3 Summary of significant accounting policies *(continued)*

z) New Standards and Interpretations not yet adopted (continued)

IFRS 9 Financial Instruments (continued)

Transition impact

The Bank will record an adjustment to its opening retained earnings as at 1 January 2018, to reflect the application of the new requirements of Impairment and will not restate comparative period.

The Bank's current estimate of the impact of IFRS 9 transition indicates a reduction of shareholders' equity by 12% as at 1 January 2018. The estimated impact relates primarily to the implementation of the ECL requirements. The Bank continues to revise, refine and validate the impairment models and related process controls leading up to the 31 March 2018 reporting date. Accordingly, the actual impact of adopting the standard at 1 January 2018 may change.

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard is applicable for periods beginning on or after 1 January 2019.

IAS 40 Investment properties

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

4 Segmental analysis

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

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

	Year ended 2017			Year ended 2016		
	Commercial banking AED'000	**Treasury & investments AED'000**	**Total AED'000**	Commercial banking AED'000	Treasury & investments AED'000	Total AED'000
Net interest and other income	**733,381**	**61,634**	**795,015**	690,257	50,793	741,050
Net impairment (loss) /reversal	**(858,821)**	**(13,668)**	**(872,489)**	(285,032)	4,598	(280,434)
(Loss) / Profit for the year	**(334,045)**	**56,300**	**(277,745)**	219,817	51,894	271,711
Segment capital expenditure	**14,754**	**-**	**14,754**	4,363	-	4,363
Segment depreciation	**11,781**	**-**	**11,781**	11,564	-	11,564
At 31 December						
Segment total assets	**14,075,516**	**2,873,709**	**16,949,225**	13,331,218	2,794,089	16,125,307
Segment total liabilities	**14,079,565**	**329,753**	**14,409,318**	12,460,993	702,799	13,163,792

5 Cash and deposits with central banks

	2017 AED'000	2016 AED'000
Cash in hand	**68,676**	82,509
Deposits with central banks *(refer note 5.1)*	**1,705,772**	1,351,610
Reserve requirements with the CB UAE *(refer note 5.2)*	**449,049**	388,222
Reserve requirements with the CB Lebanon *(refer note 5.2)*	**37,686**	41,386
	2,261,183	1,863,727

5.1 Includes AED 9.182 million (2016: AED 9.182 million) cash reserve amounting to 25% of the capital of the Lebanon Branch with CB Lebanon. This reserve is not available for the day to day activities of the Lebanon branch.

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

6 Due from banks

	2017 AED'000	2016 AED'000
Money market placements	**249,370**	419,866
Balances with other banks	**149,234**	142,331
	398,604	562,197
The geographical concentration is as follows:		
- Within the U.A.E	**256,978**	378,831
- Outside the U.A.E	**141,626**	183,366
	398,604	562,197

7 Investment securities

The details of investments are as follows:	Domestic AED '000	Other GCC Countries AED '000	Others AED '000	Total AED '000
At 31 December 2017				
Financial assets measured at fair value through profit or loss (FVTPL):				
Investments in quoted equity securities	**3,704**	-	-	**3,704**
Investments in un-quoted equity securities	-	-	**6,458**	**6,458**
Financial assets measured at fair value through other comprehensive income (FVTOCI)				
Investments in quoted equity securities	**135,040**	**717**	-	**135,757**
Financial assets at amortised cost:				
Investments in debt securities	**399,020**	-	-	**399,020**
	537,764	**717**	**6,458**	**544,939**
At 31 December 2016				
Financial assets measured at fair value through profit or loss (FVTPL):				
Investments in quoted equity securities	2,656	-	-	2,656
Investments in un-quoted equity securities	-	-	1,954	1,954
Financial assets measured at fair value through other comprehensive income (FVTOCI)				
Investments in quoted equity securities	142,108	899	-	143,007
Investments in un-quoted equity securities	111,482	-	-	111,482
Financial assets at amortised cost:				
Investments in debt securities	446,552	-	-	446,552
	702,798	899	1,954	705,651

7.1 The Group has purchased equity investments amounting to AED 4.6 million during the year ended 31 December 2017. (31 December 2016: Nil)

8 Loans and advances to customers

	2017 AED'000	2016 AED'000
Overdrafts	**5,459,266**	4,801,582
Bills discounted	**425,119**	597,997
Trust receipts	**749,977**	599,081
Term loans	**7,341,489**	7,016,484
	13,975,851	13,015,144
Allowances for impairment (*refer note 8.1 and 8.2*)	**(1,510,217)**	(1,061,619)
Net loans and advances to customers	**12,465,634**	11,953,525

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

	2017 AED'000	2016 AED'000
At 1 January	**1,061,619**	961,580
Charge for the year (*refer note 19*)	**927,342**	422,637
Recoveries during the year	**(49,688)**	(80,090)
Interest not recognised in the consolidated profit or loss statement	**31,086**	31,856
Amounts written off during the year	**(460,142)**	(274,364)
	1,510,217	1,061,619

8.2 The composition of allowances for impairment is as follows:

	2017 AED'000	2016 AED'000
Specific allowance for impairment	**1,243,776**	837,120
Collective allowance for impairment	**266,441**	224,499
	1,510,217	1,061,619

9 Property and equipment

	Land and building AED'000	Office installation and impro--movements AED'000	Office furniture and equipment AED'000	Motor vehicles AED'000	Total AED'000
Cost					
At 1 January 2017	103,974	45,461	70,172	460	220,067
Additions	-	103	14,651	-	14,754
At 31 December 2017	**103,974**	**45,564**	**84,823**	**460**	**234,821**
Accumulated depreciation					
At 1 January 2017	26,860	25,791	55,606	370	108,627
Charge for the year	1,863	3,132	6,696	90	11,781
At 31 December 2017	**28,723**	**28,923**	**62,302**	**460**	**120,408**
Net book value at 31 December 2017	**75,251**	**16,641**	**22,521**	**-**	**114,413**
Cost					
At 1 January 2016	103,974	45,131	66,139	460	215,704
Additions	-	330	4,033	-	4,363
At 31 December 2016	103,974	45,461	70,172	460	220,067
Accumulated depreciation					
At 1 January 2016	24,997	22,138	49,711	217	97,063
Charge for the year	1,863	3,653	5,895	153	11,564
At 31 December 2016	26,860	25,791	55,606	370	108,627
Net book value at 31 December 2016	77,114	19,670	14,566	90	111,440

10 Other assets

	2017 AED'000	2016 AED'000
Interest receivable	**69,181**	67,357
Investment properties (*refer note 10.1*)	**523,787**	400,427
Prepayments and other assets	**14,628**	12,649
Customers' indebtedness for acceptances	**556,856**	448,334
	1,164,452	928,767

10.1 Represents properties acquired in settlement of loans and advances.

11 Due to banks

	2017 AED'000	2016 AED'000
Money market borrowings	-	326,000
Demand deposits	**2,827**	3,002
	2,827	329,002

12 Deposits from customers

	2017 AED'000	2016 AED'000
Time deposits	**10,376,743**	9,321,295
Savings accounts	**132,727**	175,549
Current and other accounts	**3,084,658**	2,679,841
	13,594,128	12,176,685

Customer deposits by geographical area are as follows:

Within the UAE	**13,500,149**	12,052,826
Others	**93,979**	123,859
	13,594,128	12,176,685

13 Other liabilities

	2017 AED'000	2016 AED'000
Interest payable	**132,282**	101,406
Unearned commission income	**54,382**	31,191
Staff benefits payable	**10,839**	8,598
Accrued expenses	**20,493**	20,749
Manager's cheques	**11,732**	23,520
Liabilities under acceptances	**556,856**	448,334
Others	**25,779**	24,307
	812,363	658,105

14 Share capital and reserves

Share capital

At 31 December 2017, the Group's authorised, issued and fully paid share capital was AED 1,588.13 million comprising 1,588.13 million shares of AED 1 each (at 31 December 2016: AED 1,588.13 million comprising 1,588.13 million shares of AED 1 each).

Reserves

Legal reserve

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

Special reserve

In accordance with the Article 82 of Union Law No. 10 of 1980, 10% of the annual profit is transferred to the Special reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the Bank's capital.

Dividend

At the Annual General Meeting of the bank held on 26 March 2017, it was resolved to pay cash dividend of AED 128.3 million. During the year, Bank has paid this dividend to the shareholders (31 December 2016: AED 119 million).

15 Net interest income

	2017 AED'000	2016 AED'000
Interest income:		
Deposits with Banks	**21,216**	9,796
Debt securities	**20,312**	24,092
Loans and advances to customers	**805,759**	735,695
	847,287	769,583
Interest expense		
Due to banks	**(398)**	(867)
Time deposits	**(307,605)**	(253,841)
Call deposits	**(2,293)**	(2,224)
Savings accounts and others	**(2,697)**	(1,552)
	(312,993)	(258,484)
	534,294	511,099

16 Net fees and commission income

	2017 AED'000	2016 AED'000
Fees and commission income:		
Letters of credit fee	**34,726**	49,252
Letters of guarantee fee	**97,966**	81,300
Retail and corporate lending fees	**46,965**	42,974
Commission on transfers	**3,343**	3,227
Others	**25,632**	23,004
	208,632	199,757
Fees and commission expenses:		
Service charges and other expense	**(362)**	(350)
	208,270	199,407

17 Other income

	2017 AED'000	2016 AED'000
Dividend on investment securities	**5,134**	5,079
Rental income	**8,809**	8,620
Realised gain on investment securities at FVTPL	**417**	352
Fair value adjustment for financial assets at fair value through profit or loss	**1,278**	1,549
Fair value loss on investment properties	**(9,000)**	(24,000)
Other operating income	**25,894**	19,000
	32,532	10,600

18 General and administrative expenses

	2017 AED'000	2016 AED'000
Personnel and related costs	**(144,866)**	(137,662)
Premises and related expenses	**(18,339)**	(19,489)
Others	**(25,285)**	(20,190)
	(188,490)	(177,341)

19 Net Impairment loss

	2017 AED'000	2016 AED'000
Specific impairment charge for the year	**885,400**	408,392
Recoveries (*refer note 19.1*)	**(54,853)**	(142,203)
	830,547	266,189
Collective provision charge	**41,942**	14,245
Net impairment loss and collective provision	**872,489**	280,434

19.1 Includes AED 5.2 million (2016: AED 62 million) recovered from balances previously written off.

20 Earnings per share

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

	2017 AED'000	2016 AED'000
(Loss) / Profit attributable to ordinary share holders	**(277,745)**	271,711
Weighted average number of shares outstanding at 31 December	**1,588,125**	1,588,125
Earnings per share (UAE Dirhams)	**(0.175)**	0.171

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

21 Cash and cash equivalents

	2017 AED'000	2016 AED'000
Cash and deposits with Central Banks	**2,252,001**	1,449,545
Due from banks maturing within three months	**398,604**	462,197
Due to banks maturing within three months	**(2,827)**	(329,002)
	2,647,778	1,582,740

22 Related party transactions

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

	2017		2016	
	Key management personnel AED'000	Companies associated with key management personnel AED'000	Key management personnel AED'000	Companies associated with key management personnel AED'000
Loans				
Loans outstanding at 31 December	**38,357**	**564,218**	48,036	543,930
Interest income earned during the year	**1,728**	**28,812**	1,636	26,540
Outstanding letters of credit and guarantees at 31 December	**5,375**	**14,175**	5,428	48,555
Deposits				
Deposits at 31 December	**273,059**	**611,433**	332,333	722,642
Interest expense during the year	**7,946**	**17,510**	7,907	20,821

The loans extended to directors during the year are repayable over 1 year and bear interest at rates ranging from 4 % to 10 % per annum (2016: 4% to 10%). At 31 December 2017, outstanding loans and advances due from related parties are secured by deposits under lien amounting to AED 551.7 million (2016: AED 512.4 million).

22 Related party transactions *(continued)*

Key management compensation	2017 AED'000	2016 AED'000
Board of Directors and Executive committee members	**4,300**	2,550
Key management	**10,220**	9,350
Termination benefits	**368**	293
	14,888	12,193

23 Commitments and contingent liabilities

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

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

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

	2017 AED'000	2016 AED'000
Letters of credit	**743,882**	988,655
Letters of guarantee	**7,351,007**	6,997,355
Irrevocable commitments to extend credit	**521,639**	634,581
Foreign exchange and forward commitments	**230,285**	234,003
	8,846,813	8,854,594

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

Exposure by geography as on 31 December

	Irrevocable commitments to extend credit		Foreign exchange and forward commitments		Contingent liabilities	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
United Arab Emirates	**521,639**	634,581	**230,285**	234,003	**8,042,510**	7,969,325
Other Arab Countries	-	-	-	-	**52,379**	16,685
	521,639	634,581	**230,285**	234,003	**8,094,889**	7,986,010

23 Commitments and contingent liabilities *(continued)*

	Irrevocable commitments to extend credit		Foreign exchange and forward commitments		Other commitments and contingent liabilities	
	2017	2016	**2017**	2016	**2017**	2016
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Exposure by currency as on 31 December						
Foreign currency	**735**	1,779	**230,285**	234,003	**575,152**	612,000
AED	**520,904**	632,802	**(230,285)**	(234,003)	**7,519,737**	7,374,010
Total	**521,639**	634,581	-	-	**8,094,889**	7,986,010
Exposure by industry segment as on 31 December						
Agriculture, and allied activities	-	-	-	-	**4,883**	928
Mining and quarrying	-	-	-	-	**6,538**	9,839
Manufacturing	**32,740**	48,924	-	-	**917,394**	780,609
Construction and real estate	**248,990**	231,628	-	-	**5,176,998**	5,244,423
Trade	**6,782**	23,000	**230,285**	234,003	**1,023,488**	871,462
Transport, storage and communication	**5,307**	11,686	-	-	**110,967**	176,407
Financial institutions	**52,800**	-	-	-	**123,503**	113,663
Other services	**67,150**	213,532	-	-	**543,604**	554,627
Government	-	-	-	-	-	13,137
Loans to individuals	**3,429**	5,045	-	-	**1,072**	1,269
Loans to high net worth individuals	**30,203**	100,766	-	-	**12,598**	15,509
Others	**74,238**	-	-	-	**173,844**	204,137
Total	**521,639**	634,581	**230,285**	234,003	**8,094,889**	7,986,010
Exposure by maturity as on 31 December						
Less than 3 months	**289,409**	218,273	**230,285**	234,003	**190,652**	2,628,990
More than 3 months	**232,230**	416,308	-	-	**7,904,237**	5,357,020
Total	**521,639**	**634,581**	**230,285**	**234,003**	**8,094,889**	7,986,010

24 Accounting classification of financial assets and financial liabilities

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

At 31 December 2017	FVTPL	FVTOCI	Others at amortised cost	Total carrying amount
	AED '000	AED '000	AED '000	AED '000
Financial assets				
Cash and deposits with central banks	-	-	2,261,183	2,261,183
Due from banks	-	-	398,604	398,604
Investment securities	10,162	135,757	399,020	544,939
Loans and advances to customers	-	-	12,465,634	12,465,634
Customers' indebtedness for acceptances	-	-	556,856	556,856
Other financial assets	23	-	75,066	75,089
	10,185	**135,757**	**16,156,363**	**16,302,305**
Financial liabilities				
Due to banks	-	-	2,827	2,827
Deposits from customers	-	-	13,594,128	13,594,128
Liabilities under acceptances	-	-	556,856	556,856
Other financial liabilities	-	-	184,514	184,514
	-	-	**14,338,325**	**14,338,325**
At 31 December 2016				
Financial assets				
Cash and deposits with central banks	-	-	1,863,727	1,863,727
Due from banks	-	-	562,197	562,197
Investment securities	4,610	254,489	446,552	705,651
Loans and advances to customers	-	-	11,953,525	11,953,525
Customers' indebtedness for acceptances	-	-	448,334	448,334
Other financial assets	48	-	77,447	77,495
	4,658	254,489	15,351,782	15,610,929
Financial liabilities				
Due to banks	-	-	329,002	329,002
Deposits from customers	-	-	12,176,685	12,176,685
Liabilities under acceptances	-	-	448,334	448,334
Other financial liabilities	-	-	168,219	168,219
	-	-	**13,122,240**	**13,122,240**

25 Fair value of assets and liabilities

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

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

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

At 31 December 2017

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
Financial assets				
FVTPL - equity securities	**3,704**	-	**6,458**	**10,162**
FVTOCI - equity securities	**135,757**	-	-	**135,757**
Non financial assets				
Investment properties	-	-	**523,787**	**523,787**
	139,461	-	**530,245**	**669,706**

At 31 December 2016

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
Financial assets				
FVTPL - equity securities	2,656	-	1,954	4,610
FVTOCI - equity securities	143,007		111,482	254,489
Non financial assets				
Investment properties	-	-	400,427	400,427
	145,663	-	513,863	659,526

25 Fair value of assets and liabilities *(continued)*

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

	31 Dec 2017		31 Dec 2016	
	Investment securities	Investment properties	Investment securities	Investment properties
	AED'000		AED'000	
Balance as at 1 January	113,436	400,427	123,376	329,115
Fair value changes:				
in profit or loss		(9,000)	-	(24,000)
in OCI	10,000	-	(10,000)	-
Transfer	(121,482)	121,482	-	-
Additions	4,504	13,952	60	95,312
Disposals	-	(3,074)	-	-
	6,458	523,787	113,436	400,427

Although the Bank believes that it's estimates at fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurement in level-3, changing the assumptions by 5%(+/-), would not have any significant impact on the Group's consolidated financial statements.

Valuation of investment securities

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

Valuation of investment properties

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

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.
The Group has taken the highest and best use fair values for the fair value measurement of its investment properties.

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

25 Fair value of financial instrument *(continued)*

b) Financial instruments not measured at fair value

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

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

At 31 December 2016	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total fair value AED '000	Total carrying amount AED '000
Financial assets					
Cash and deposits with central banks	-	1,863,727	-	1,863,727	1,863,727
Due from banks	-	562,197	-	562,197	562,197
Investment securities	433,891	25,015	-	458,906	446,552
Loans and advances to customers	-	-	11,953,525	11,953,525	11,953,525
Customers' indebtedness for acceptances	-	-	448,334	448,334	448,334
Other financial assets	-	77,495	-	77,495	77,495
	433,891	2,528,434	12,401,859	15,364,184	15,351,830
Financial liabilities					
Due to banks	-	329,002	-	329,002	329,002
Deposits from customers	-	12,176,685	-	12,176,685	12,176,685
Liabilities under acceptances	-	-	448,334	448,334	448,334
Other financial liabilities	-	168,219	-	168,219	168,219
	-	12,673,906	448,334	13,122,240	13,122,240

25 Fair value of financial instrument *(continued)*

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

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

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

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

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

26 Use of estimates and judgments

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies are as follows:

(a) Impairment losses on loans and advances, amortised costs investments and other assets carried at amortised cost

The above financial assets are evaluated individually for impairment and is based upon management's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimates of cash flows considered recoverable are independently approved by credit risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolio of loans and advances and investment securities measured at amortised cost with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items have not yet been identified. In assessing the need for collective loss allowances, management considers factor such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimate of the future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

(b) Fair value of derivatives and unquoted securities

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

(c) Investment properties

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

26 Use of estimates and judgments

(d) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has resources to continue in business for the foreseeable future, at least beyond 12 months from the reporting date, despite loss in the current year and decline in CAR. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

27 Financial Risk Management

a) Introduction and overview

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

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

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

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

Governance and Risk Management Framework (RMF)

The Board of Directors (the "Board" or "BOD") has the ultimate responsibility for the establishment and oversight of the Group's Risk Management Framework. There are many trends that significantly alter the risk landscape, with changes to how Bank responds and manages risk. The Bank is also formulating many other committees in line with international best practices.

The Board level Executive Committee (EC), has been entrusted with the mandate for risk management decisions. The EC is assisted by the following Senior Management Committees: Asset Liability Committee (ALCO); Audit Committee; Management Credit Committee; and Compliance Committee.

Considering the pace of change and evolution in risk management and to meet the structural changes in the banking industry and regulations, Board involvement in Governance and Risk Management has also been up-scaled by the formulation and approval of the following additional Committees:

a. Board Committee on Corporate Governance;
b. Board Risk Policy Committee; and
c. Remuneration and Compensation Committee.

Bank is also now in the process of implementing Basel III Frameworks, IFRS 9, Risk Data Mart & appropriate committees and task forces have been formed. Control is maintained by assigning distinct responsibilities to members of the senior management.

The Group continues to review the entire process, inherent risk factors and controls and consider opportunities by rationalizing regulatory risk management initiatives. Experiencing from the crisis, and to deliver value beyond mere adherence, major component of RMF are ICAAP; stress testing; and capital management plan. The ICAAP exercise and stress testing have demonstrated that the Group has sufficient capital buffers for any extreme circumstances or scenarios.

27 Financial Risk Management *(continued)*

a)* Introduction and overview *(continued)

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

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

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

Frameworks for translating policies defining "risk appetite" and "risk tolerance" levels to measurement techniques are in the advanced stages to link them to appropriate risk limits, controls and capital management planning (CMP) frameworks. CMP which was developed and rolled out in 2015 and Stress Testing (ST) developed and implemented in 2016, have been embedded into the ICAAP framework. Through CMP and ST, the Group strives to maximize shareholder value, strategic planning, risk based pricing, and risk adjusted performance measurement in addition to fulfilling regulatory requirements.

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

***b)* Credit Risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers, contingent liabilities, balances due from banks, Deposits and reserve with the Central Bank, other assets and debt securities.

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

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

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

The broad functions of CRMD includes:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutury requirements;

- Reviewing and assessing credit risk in accordance with delegation & authority structure, limits and discretionary powers prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;

27 Financial Risk Management *(continued)*

b) Credit Risk *(continued)*

Management of credit risk *(continued)*

- Limiting concentrations of credit exposure to counterparties and industries by establishing exposure caps and monitoring sectoral exposures. Preferred sectors are identified regularly in line with market dynamics. Accordingly marketing initiatives are directed either to expand or to reduce balance risk / reward trade offs;

- Reviewing compliance on an ongoing basis with approved exposure limits relating to counterparties, industries and countries. Regular reports are provided to the management, MCC, Executive Committee and the Board of Directors on the quality of portfolios and appropriate corrective action is initiated when necessary; and

- Providing advice, guidance and specialised skills to business units to promote best practices throughout the Group in the management of credit risk.

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

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

27 Financial Risk Management *(continued)*

b) Credit Risk *(continued)*

Exposure to credit risk

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any.

	Loans and advances	
	2017	2016
	AED'000	AED'000
Carrying amount, net	**12,465,634**	11,953,525
Individually impaired		
Substandard	**773,936**	195,275
Doubtful	**820,308**	455,936
Loss	**137,771**	386,726
Total impaired portfolio	**1,732,015**	1,037,937
Interest suspended	**(34,189)**	(38,085)
Specific allowance for impairment	**(1,209,587)**	(799,035)
Carrying amount	**488,239**	200,817
Past due but not impaired	**748,335**	114,543
Neither past due nor impaired	**11,495,501**	11,862,664
Total non-impaired portfolio	**12,243,836**	11,977,207
Collective impairment provision	**(266,441)**	(224,499)
Carrying amount	**11,977,395**	11,752,708
Total carrying amount	**12,465,634**	11,953,525

The Group has a defined policy for delinquency, monitoring and controlling such delinquent accounts, in line with the CB UAE and Basel II guidelines.

Other financial assets exposed to credit risk are as follows:

	2017	2016
	AED'000	AED'000
Deposits and reserves with Central Bank	**2,192,507**	1,781,218
Due from banks	**398,604**	562,197
Debt securities	**399,020**	446,552
Customer acceptance	**556,856**	448,334
Contingent liabilities	**1,273,273**	1,460,480
Other financial assets	**75,089**	77,495
	4,895,349	4,776,276

Apart from loans and advances, all other financial assets are current and neither past due nor impaired.

27 Financial risk management *(continued)*

b) Credit Risk *(continued)*

Exposure to credit risk *(continued)*

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

	Government bonds		Corporate bonds		Total	
	2017	2016	**2017**	2016	**2017**	2016
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Rated A- and above	-	18,365	**22,038**	43,296	**22,038**	61,661
Rated BBB+ to BB	-	61,802	**160,330**	106,437	**160,330**	168,239
Unrated	**135,846**	135,846	**80,806**	80,806	**216,652**	216,652
	135,846	**216,013**	**263,174**	**230,539**	**399,020**	**446,552**

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

Impaired loans and advances

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

Past due but not impaired loans

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

Allowances for impairment

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

27 Financial risk management *(continued)*

b) Credit Risk *(continued)*

Write-off policy

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

Collateral and other credit enhancements

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

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

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

	2017 AED'000	2016 AED'000
Against neither past due nor impaired		
Cash	**2,853,128**	2,748,314
Commercial and industrial property	**2,785,586**	2,895,229
Residential property	**3,677**	4,456
Equities	**355,069**	180,952
Other	**720,544**	751,339
	6,718,004	6,580,290
Against past due but not impaired		
Cash	**26,405**	23,708
Commercial and industrial property	**451,978**	17,613
Other	**6,100**	5,137
	484,483	46,458
Against impaired		
Cash	**50,180**	15,582
Commercial and industrial property	**290,786**	119,493
Equities	**7,787**	7,770
Other	**24,110**	9,584
	372,863	152,429
Total collateral held	**7,575,350**	6,779,177

27 Financial risk management *(continued)*

b) Credit Risk *(continued)*

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

	Loans and advances		Debt Securities		Due from Banks	
	2017 AED '000	2016 AED '000	**2017 AED '000**	2016 AED '000	**2017 AED '000**	2016 AED '000
Gross credit exposure by industry segment						
Agriculture, fishing and related activities	**595**	529	-	-	-	-
Mining and quarrying	**18,186**	37,837	-	-	-	-
Manufacturing	**2,438,389**	2,233,903	-	-	-	-
Electricity, gas and water	-	-	**61,564**	61,802	-	-
Construction	**3,276,789**	2,826,168	-	-	-	-
Real estate	**1,980,084**	1,545,907	**29,384**	29,384	-	-
Trade	**1,550,956**	1,711,545	-	-	-	-
Transport, storage and communication	**203,789**	104,934	-	-	-	-
Financial institutions	**1,260,769**	990,891	**84,479**	131,773	**398,604**	562,197
Other services	**1,314,303**	1,414,719	-	-	-	-
Government	**408,118**	578,455	**154,211**	154,211	-	-
Loans to individuals	**84,282**	76,388	-	-	-	-
Loans to high net worth individuals	**834,754**	993,711	-	-	-	-
Others	**604,837**	500,157	**69,382**	69,382	-	-
Total	**13,975,851**	**13,015,144**	**399,020**	**446,552**	**398,604**	**562,197**
Gross credit exposure by currency						
Foreign currency	**391,561**	404,072	**399,020**	421,537	**142,641**	179,653
AED	**13,584,290**	12,611,072	-	25,015	**255,963**	382,544
Total	**13,975,851**	**13,015,144**	**399,020**	**446,552**	**398,604**	**562,197**
Concentration by location						
United Arab Emirates	**13,451,511**	12,473,909	**399,020**	446,552	**256,978**	378,831
Other G.C.C.	**48,850**	87,330	-	-	**13,420**	27,768
Other Arab countries	**157,990**	126,405	-	-	**27,058**	77,587
Western Europe and others	**317,500**	327,500	-	-	**101,148**	78,011
Gross total	**13,975,851**	**13,015,144**	**399,020**	**446,552**	**398,604**	**562,197**

27 Financial risk management *(continued)*

b) Credit Risk *(continued)*

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

2017	Overdues 90 days and above	Specific Provisions and Interest in suspense	Net impaired assets	Adjustments	
Concentration by industry segment				Write-offs	Write-backs
	AED '000	AED '000	AED '000	AED '000	AED '000
Mining and quarrying	-	-	-	17	-
Manufacturing	537,679	448,002	89,677	123,146	1,243
Construction and real estate	433,290	301,740	131,550	91,267	25,019
Trade	479,419	345,707	133,712	191,674	9,523
Transport, Storage and Communication	7,508	4,849	2,659	3,252	43
Financial Institutions	-	-	-	-	-
Other services	23,032	16,629	6,403	18,541	13
Loans to individuals	14,858	11,041	3,817	5,763	122
Loans to high net worth individuals	74,808	74,808	-	26,345	5,414
Others	161,421	41,000	120,421	137	13,476
Total	**1,732,015**	**1,243,776**	**488,239**	**460,142**	**54,853**
Concentration by geography					
United Arab Emirates	1,728,768	1,243,561	485,207	460,142	54,853
Others	3,247	215	3,032	-	-
Total	**1,732,015**	**1,243,776**	**488,239**	**460,142**	**54,853**
2016					
Concentration by industry segment					
Mining and quarrying	2	2	-	4,878	-
Manufacturing	178,499	172,098	6,401	15,439	6,140
Construction and real estate	228,863	152,115	76,748	189,288	49,245
Trade	492,758	428,337	64,421	47,094	6,000
Transport, Storage and Communication	10,121	6,978	3,143	12,331	-
Financial Institutions	-	-	-	-	-
Other services	19,517	14,215	5,302	988	-
Loans to individuals	14,223	10,510	3,713	4,346	752
Loans to high net worth individuals	93,817	52,834	40,983	-	15,963
Others	137	31	106	-	1,990
Total	**1,037,937**	**837,120**	**200,817**	**274,364**	**80,090**
Concentration by geography					
United Arab Emirates	1,037,440	836,905	200,535	274,364	80,090
Others	497	215	282	-	-
Total	**1,037,937**	**837,120**	**200,817**	**274,364**	**80,090**

At reporting date the Group did not have any impaired loans overdue less than 90 days (2016: Nil).

Invest bank P.S.C.
Notes

27 Financial risk management *(continued)*

b) Credit Risk *(continued)*

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

All figures in AED '000

31 December 2017	On balance sheet	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
Asset classes	Gross outstanding	Gross outstanding	Exposure before CRM	CRM	After CRM	
Claims on sovereign	2,736,900	-	2,736,900	-	2,736,900	97,872
Claims on public sector entities (PSEs)	79,888	-	79,888	-	79,888	-
Claims on banks	483,083	101,030	584,113	-	584,113	231,203
Claims on corporates and GREs	7,959,436	4,891,386	12,767,350	2,054,472	10,712,878	8,260,627
Claims included in retail portfolio	2,973,101	3,879,995	6,852,869	1,099,057	5,753,812	4,019,557
Claims secured by residential property	-	-	-	-	-	-
Claims secured by commercial real estate	250,013	301,311	550,719	20,952	529,767	288,718
Past due loans	2,483,949	229,947	1,633,332	67,085	1,566,247	1,711,221
High risk categories	560,787	-	523,787	-	523,787	785,681
Other assets	414,887	-	412,430	-	412,430	343,753
Total	**17,942,044**	**9,403,669**	**26,141,388**	**3,241,566**	**22,899,822**	**15,738,632**

31 December 2016						
Asset classes						
Claims on sovereign	2,497,282	2,493	2,499,775	-	2,499,775	80,241
Claims on public sector entities (PSEs)	79,888	13,137	93,025	-	93,025	-
Claims on banks	693,714	147,202	840,915	-	840,915	295,636
Claims on corporates and GREs	9,604,840	7,172,684	16,727,359	2,284,168	14,443,191	10,818,906
Claims included in retail portfolio	1,703,288	1,767,193	3,470,446	681,157	2,789,289	1,999,407
Claims secured by residential property	7,680	1,200	8,880	-	8,880	2,688
Claims secured by commercial real estate	70,676	2,811	73,487	8,981	64,506	61,695
Past due loans	1,148,969	196,208	567,618	32,730	534,888	444,444
High risk categories	428,427	-	400,427	-	400,427	600,641
Other assets	534,286	-	531,829	-	531,829	449,319
Total	**16,769,050**	**9,302,928**	**25,213,761**	**3,007,036**	**22,206,725**	**14,752,977**

27 Financial risk management *(continued)*

b) Credit Risk *(continued)*

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

2017

All figures in AED '000

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

2016

	Gross Credit Exposures		
Asset classes	**Rated**	**Unrated**	**Exposure before CRM**
Claims on sovereign	-	2,499,775	2,500,225
Claims on public sector entities (PSEs)	-	93,025	93,025
Claims on banks	493,659	347,256	840,915
Claims on corporates and GREs	14,608	16,712,751	16,727,359
Claims included in retail portfolio	-	3,470,446	3,470,446
Claims secured by residential property	-	8,880	8,880
Claims secured by commercial real estate	-	73,487	73,487
Past due loans	-	569,945	569,945
High risk categories	-	400,427	400,427
Other assets	-	531,829	531,829
Total	**508,267**	**24,707,821**	**25,216,538**

27 Financial risk management *(continued)*

c) Liquidity Risk

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

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

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

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

Management of liquidity risk

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

a) Maintaining a diversified funding base consisting of customer deposits (both retail and corporate), wholesale market deposits and maintaining contingency facilities;

b) Carrying a portfolio of high quality liquid assets, diversified by currency and maturity;

c) Monitoring liquidity ratios, maturity mismatches, behavioral characteristics of the Group's financial assets and liabilities, and the extent to which the Group's assets are encumbered and hence not available as potential collateral for obtaining funding; and

d) Carrying out stress testing of the Group's liquidity position.

Exposure to liquidity risk

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

27 Financial risk management *(continued)*

c) Liquidity Risk *(continued)*

Maturities of assets and liabilities

At 31 December 2017	Less than 3 months AED'000	3 months to 1 year AED'000	1 year and above AED'000	Total AED'000
Assets				
Cash and deposits with central banks	2,252,001	-	9,182	2,261,183
Due from banks	398,604	-	-	398,604
Investment securities	214,791	76,812	253,336	544,939
Loans and advances to customers	2,524,565	6,011,439	3,929,630	12,465,634
Customers' indebtedness for acceptances	391,228	83,188	82,440	556,856
Property and equipment	-	-	114,413	114,413
Other assets	72,564	15,154	519,878	607,596
Total assets	**5,853,753**	**6,186,593**	**4,908,879**	**16,949,225**
Liabilities and equity				
Due to banks	2,827	-	-	2,827
Deposits from customers	6,059,351	6,985,871	548,906	13,594,128
Liabilities under acceptances	391,228	83,188	82,440	556,856
Other liabilities	156,060	54,422	45,025	255,507
Equity	-	-	2,539,907	2,539,907
Total liabilities and equity	**6,609,466**	**7,123,481**	**3,216,278**	**16,949,225**

At 31 December 2016	Less than 3 months AED'000	3 months to 1 year AED'000	1 year and above AED'000	Total AED'000
Assets				
Cash and deposits with central banks	1,649,545	205,000	9,182	1,863,727
Due from banks	462,197	100,000	-	562,197
Investment securities	284,114	22,280	399,257	705,651
Loans and advances to customers	2,529,115	5,198,855	4,225,555	11,953,525
Customers' indebtedness for acceptances	320,666	79,320	48,348	448,334
Property and equipment	-	-	111,440	111,440
Other assets	69,448	12,791	398,194	480,433
Total assets	**5,315,085**	**5,618,246**	**5,191,976**	**16,125,307**
Liabilities and equity				
Due to banks	329,002	-	-	329,002
Deposits from customers	5,514,053	6,219,657	442,975	12,176,685
Liabilities under acceptances	320,666	79,320	48,348	448,334
Other liabilities	132,945	36,695	40,131	209,771
Equity	-	-	2,961,515	2,961,515
Total liabilities and equity	**6,296,666**	**6,335,672**	**3,492,969**	**16,125,307**

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

27 Financial risk management *(continued)*

c) Liquidity Risk *(continued)*

Residual contractual maturity of financial liabilities

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

2017	Carrying amount AED'000	Gross nominal outflow AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 year AED'000
Non-derivative financial liabilities					
Due to banks	2,827	(2,827)	(2,827)	-	-
Deposits from customers	13,594,128	(13,916,309)	(6,061,870)	(7,236,111)	(618,327)
Liabilities for acceptances	556,856	(556,856)	(391,228)	(83,188)	(82,440)
Other liabilities	255,510	(255,510)	(156,060)	(54,422)	(45,025)
Total liabilities	**14,409,321**	**(14,731,502)**	**(6,611,985)**	**(7,373,721)**	**(745,792)**
2016					
Non-derivative financial liabilities					
Due to banks	329,002	(329,328)	(329,328)	-	-
Deposits from customers	12,176,685	(12,440,866)	(5,564,261)	(6,406,756)	(469,849)
Liabilities for acceptances	448,334	(448,334)	(320,666)	(79,320)	(48,348)
Other liabilities	209,771	(209,771)	(132,945)	(36,695)	(40,131)
Total liabilities	**13,163,792**	**(13,428,299)**	**(6,347,200)**	**(6,522,771)**	**(558,328)**

d) Market Risk

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

Management of market risk

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

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

27 Financial risk management *(continued)*

d) Market Risk *(continued)*

Exposure to interest rate risk

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

Assets and liabilities repricing profile

	Effective interest rate %	Less than 3 months AED'000	3 months to 1 year AED'000	more than 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and deposits with central banks	0.86	-	-	-	2,261,183	2,261,183
Due from banks	0.96	-	-	-	398,604	398,604
Investment securities	4.89	-	-	-	544,939	544,939
Loans and advances to customers	6.35	7,016,973	5,231,709	-	216,952	12,465,634
Customers' indebtedness for acceptances		-	-	-	556,856	556,856
Property and equipment		-	-	-	114,413	114,413
Other assets		-	-	-	607,596	607,596
Total assets		**7,016,973**	**5,231,709**	**-**	**4,700,543**	**16,949,225**
Liabilities and equity						
Due to banks		-	-	-	2,827	2,827
Deposits from customers	2.37	2,974,693	6,985,871	548,906	3,084,658	13,594,128
Liabilities under acceptances		-	-	-	556,856	556,856
Other liabilities		-	-	-	255,508	255,508
Equity		-	-	-	2,239,907	2,239,907
Total liabilities and equity		**2,974,693**	**6,985,871**	**548,906**	**6,139,756**	**16,649,226**
Interest rate sensitivity gap		**4,042,280**	**(1,754,162)**	**(548,906)**	**(1,439,213)**	**-**
Cumulative interest rate sensitivity gap:						
As of 31 December 2017		**4,042,280**	**2,288,118**	**1,739,212**		
As of 31 December 2016		3,826,616	2,675,922	2,232,947		

27 Financial risk management *(continued)*

d) Market Risk *(continued)*

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

Sensitivity analysis - Interest rate risk

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

Shift in yield curve	**2017**	2016
	AED '000	AED '000
±200 b.p.	**49,830**	52,270

A substantial portion of the Group's assets and liabilities are re-priced within 1-year. Accordingly, there is limited exposure to interest rate risk. The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. The sensitivity does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

Equity price risk

The primary goal of the Group's investment strategy is to maximise investment returns. Most of the Group's equity investments are listed either on the Dubai Financial Market or the Abu Dhabi Securities Market. For investments classified as fair value through other comprehensive income, a 5% increase at the reporting date would have increased equity by AED 6.79 million (31 December 2016: AED 12.72 million) and an equal change in the opposite direction would have decreased equity by a similar amount. For investments classified as fair value through profit or loss, the impact on the profit would have been an increase or decrease of AED 0.5 million (31 December 2016: AED 0.2 million).

Foreign currency risk

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

		2017			2016	
	Total	**Impact on profit**	**Impact on equity**	Total	Impact on profit	Impact on equity
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
British Pound	**251**	**3**	-	1,907	19	-
Euro	**218**	**2**	-	(1,782)	(18)	-

27 Financial risk management *(continued)*

e) Operational risk

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

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

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

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

f) Capital risk management and Basel II requirements

Capital allocation

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

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

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

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

The Group has determined its regulatory capital as recommended by the Basel II Capital Accord, in line with the guidelines of CB UAE with effect from 2007. The Group has complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Group's management of capital during the year. The CB UAE has advised that the minimum capital adequacy ratio should be 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8% . Collective impairment provision shall not exceed 1.25% of credit risk weighted assets.

27 Financial risk management *(continued)*

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

	2017 AED '000	2016 AED '000
TIER 1 CAPITAL		
Share capital	1,588,125	1,588,125
Legal reserve	450,688	450,688
Special reserve	450,688	450,688
Retained earnings	147,619	284,773
Total tier 1 capital	2,637,120	2,774,274
TIER 2 CAPITAL		
Fair value reserve	(97,213)	(84,470)
General provisions	197,683	184,493
Total tier 2 capital	100,470	100,023
Total regulatory capital	2,737,590	2,874,297
RISK WEIGHTED ASSETS		
Credit risk	15,738,632	14,752,977
Market risk	55,491	56,457
Operational risk	1,394,469	1,325,894
Total risk weighted assets (RWA)	17,188,592	16,135,328
Total regulatory capital expressed as % of RWA	15.93%	17.81%
Total tier 1 capital expressed as % of RWA	15.34%	17.19%

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

	2017 - AED '000		2016 - AED '000	
	Capital required	Risk weighted assets	Capital required	Risk weighted assets
Interest rate risk	-	-	352	1,954
Equity position risk	1,067	10,162	319	2,656
Foreign exchange risk	4,760	45,329	6,104	50,870
Total capital requirement	5,827	55,491	6,775	55,480

28 Social contributions

Social contributions made during the year amount to AED 78,000 (2016: AED 216,000).

29 Comparative figures

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