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FAB
First Abu Dhabi Bank



FAB Q4/FY 2018 Financial Results

- *Pro forma Financial Statements*
- *Audited Financial Statements*

Pro forma Condensed Consolidated Financial Statements

December 31, 2018

PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following pro forma condensed consolidated financial statements (“Pro forma financial statements”) illustrates the effects on the statement of financial position and financial performance of the combination (Merger) between National Bank of Abu Dhabi and its subsidiaries (together referred to as “NBAD”) and First Gulf Bank and its subsidiaries (together referred to as “FGB”).

The Pro forma financial statement consists of the audited Pro Forma Condensed Consolidated Statement of Financial Position of NBAD and FGB (together referred to as “the Group”) as at 31 December 2018, and its audited Pro forma Condensed Consolidated statement of Profit or Loss for the year then ended. These statements are prepared as if the Merger has taken place as at 1 Jan 2017.

The purpose of the Pro forma financial statements is to show the material effects that the Merger of NBAD and FGB would have had on the historical consolidated statement of financial position and the consolidated statement of profit or loss if the Group had already existed in the structure created by the Merger. They are not representative of the financial situation and performance that could have been observed if the indicated business combination had been undertaken at an earlier date.

The presentation of the Pro forma financial statements of the Group is based on certain pro forma assumptions and has been prepared for illustrative purposes only and, because of its nature, the pro forma consolidated statement of financial position and financial performance addresses a hypothetical situation and, therefore, does not represent and may not give a true picture of the financial position and financial performance of the Group. Furthermore, the Pro forma financial statements are only meaningful in conjunction with the historical consolidated financial statements of NBAD and FGB as at and for the financial year ended 31 December 2017.

The Pro forma financial statements have been compiled based on the accounting policies adopted by the Group for the preparation of 31 December 2018 financial statements. The Pro forma financial statements does not take into consideration the effects of expected synergies or costs incurred to achieve these synergies as a result of the Merger. The Pro forma financial statements gives no indication of the results and future financial situation of the activities of the Group.

Pro forma Condensed consolidated statement of financial position

As at 31 December

Assets	2018 AED'000	2017 AED'000
Cash and balances with central banks	182,908,727	138,111,054
Investments at fair value through profit or loss	14,620,910	19,320,764
Due from banks and financial institutions	19,176,092	13,829,490
Reverse repurchase agreements	19,033,451	21,346,974
Derivative financial instruments	13,084,192	11,399,432
Loans and advances	353,205,228	330,465,888
Non-trading investments	90,433,574	88,457,710
Investment properties	7,388,493	6,927,692
Property and equipment	3,991,215	3,535,501
Intangibles	19,699,711	19,901,374
Other assets	20,583,602	15,672,416
Total assets	744,125,195	668,968,295
Liabilities		
Due to banks and financial institutions	40,266,535	30,576,336
Repurchase agreements	34,769,685	37,674,016
Commercial paper	18,144,105	24,124,097
Derivative financial instruments	15,219,464	14,941,331
Customer accounts and other deposits	465,475,874	395,843,664
Term borrowings	42,268,173	42,145,718
Subordinated notes	401,979	420,381
Other liabilities	25,606,380	21,033,339
Total liabilities	642,152,195	566,758,882
Equity		
Share capital	10,897,545	10,897,545
Share premium	53,188,043	53,026,644
Treasury shares	(25,530)	(42,433)
Statutory and special reserves	9,483,238	7,081,074
Other reserves	(37,477)	962,736
Tier 1 capital notes	10,754,750	10,754,750
Share option scheme	266,841	256,265
Convertible notes - equity component	-	108,265
Retained earnings	17,083,868	18,677,552
Total equity attributable to shareholders of the Bank	101,611,278	101,722,398
Non-controlling interest	361,722	487,015
Total Equity	101,973,000	102,209,413
Total liabilities and equity	744,125,195	668,968,295

Pro forma Condensed consolidated statement of profit or loss

For the year ended 31 December

	Note	2018 AED'000	2017 AED'000
Interest income	1	21,836,404	18,846,918
Interest expense	2	(8,810,445)	(5,740,867)
Net interest income		13,025,959	13,106,051
Fee and commission income		4,879,988	4,765,261
Fee and commission expense		(1,487,616)	(1,403,397)
Net fee and commission income	3	3,392,372	3,361,864
Net foreign exchange gain	4	2,042,480	1,003,284
Net gain on investments and derivatives	5	826,225	1,582,442
Other operating income	6	158,706	479,344
Operating income		19,445,742	19,532,985
General, administration and other operating expenses	7	(5,328,555)	(5,875,349)
Profit before net impairment charge and taxation		14,117,187	13,657,636
Net impairment charge	8	(1,725,794)	(2,384,334)
Profit before taxation		12,391,393	11,273,302
Overseas income tax expense		(325,004)	(323,538)
Net profit for the period		12,066,389	10,949,764
Profit attributable to:			
Shareholders of the Group		12,010,820	10,915,157
Non-controlling interests		55,569	34,607
		12,066,389	10,949,764

Segmental information

	Business Segment					Geographic Segment			
	Corporate and Investment Banking AED'000	Personal Banking Group AED'000	Subsidiaries AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Europe, Americas, Middle East and Africa AED'000	Asia - Pacific AED'000	Total AED'000
<i>For the year ended 31 December 2018</i>									
Net Interest income	5,594,591	5,520,961	(40,251)	1,950,658	13,025,959	11,298,979	1,451,086	275,894	13,025,959
Net non-interest income	4,314,443	1,785,142	189,079	131,119	6,419,783	5,551,567	597,591	270,625	6,419,783
Operating income	<u>9,909,034</u>	<u>7,306,103</u>	<u>148,828</u>	<u>2,081,777</u>	<u>19,445,742</u>	<u>16,850,546</u>	<u>2,048,677</u>	<u>546,519</u>	<u>19,445,742</u>
General administration and other operating expenses	<u>1,741,348</u>	<u>2,768,574</u>	<u>137,375</u>	<u>681,258</u>	<u>5,328,555</u>	<u>4,381,444</u>	<u>731,204</u>	<u>215,907</u>	<u>5,328,555</u>
Net impairment charge	<u>1,222,562</u>	<u>457,486</u>	<u>(13,704)</u>	<u>59,450</u>	<u>1,725,794</u>	<u>1,807,162</u>	<u>(155,810)</u>	<u>74,442</u>	<u>1,725,794</u>
Profit before taxation	<u>6,945,124</u>	<u>4,080,043</u>	<u>25,157</u>	<u>1,341,069</u>	<u>12,391,393</u>	<u>10,661,940</u>	<u>1,473,283</u>	<u>256,170</u>	<u>12,391,393</u>
Overseas taxation	<u>188,097</u>	<u>94,001</u>	<u>33,163</u>	<u>9,743</u>	<u>325,004</u>	<u>2,678</u>	<u>295,843</u>	<u>26,483</u>	<u>325,004</u>
Net profit for the period	<u>6,757,027</u>	<u>3,986,042</u>	<u>(8,006)</u>	<u>1,331,326</u>	<u>12,066,389</u>	<u>10,659,262</u>	<u>1,177,440</u>	<u>229,687</u>	<u>12,066,389</u>
<i>As at 31 December 2018</i>									
Segment total assets	<u>630,066,190</u>	<u>101,659,261</u>	<u>13,179,664</u>	<u>127,546,798</u>	<u>872,451,913</u>	<u>619,662,984</u>	<u>205,297,041</u>	<u>32,858,649</u>	<u>857,818,674</u>
Inter segment balances					<u>(128,326,718)</u>				<u>(113,693,479)</u>
Total assets					<u>744,125,195</u>				<u>744,125,195</u>
Segment total liabilities	<u>618,795,941</u>	<u>92,621,803</u>	<u>9,916,308</u>	<u>49,144,861</u>	<u>770,478,913</u>	<u>528,049,917</u>	<u>198,827,604</u>	<u>28,968,153</u>	<u>755,845,674</u>
Inter segment balances					<u>(128,326,718)</u>				<u>(113,693,479)</u>
Total liabilities					<u>642,152,195</u>				<u>642,152,195</u>

Segmental information (continued)

	Business Segment					Geographic Segment			
	Corporate and Investment Banking AED'000	Personal Banking Group AED'000	Subsidiaries AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Europe, Americas, Middle East and Africa AED'000	Asia - Pacific AED'000	Total AED'000
For the year ended 31 December 2017									
Net Interest income	5,472,776	5,736,227	(74,843)	1,971,891	13,106,051	11,504,018	1,327,963	274,070	13,106,051
Net non-interest income	3,520,778	1,905,096	603,859	397,201	6,426,934	5,597,193	643,165	186,576	6,426,934
Operating income	<u>8,993,554</u>	<u>7,641,323</u>	<u>529,016</u>	<u>2,369,092</u>	19,532,985	<u>17,101,211</u>	<u>1,971,128</u>	<u>460,646</u>	19,532,985
General administration and other operating expenses	1,996,249	3,056,071	142,247	680,782	5,875,349	5,022,733	672,909	179,707	5,875,349
Net impairment charge	<u>299,658</u>	<u>2,240,698</u>	<u>50,961</u>	<u>(206,983)</u>	2,384,334	<u>2,304,790</u>	<u>80,704</u>	<u>(1,160)</u>	2,384,334
Profit before taxation	<u>6,697,647</u>	<u>2,344,554</u>	<u>335,808</u>	<u>1,895,293</u>	11,273,302	<u>9,773,688</u>	<u>1,217,515</u>	<u>282,099</u>	11,273,302
Overseas taxation	<u>184,647</u>	<u>114,408</u>	<u>21,973</u>	<u>2,510</u>	323,538	<u>5,264</u>	<u>287,270</u>	<u>31,004</u>	323,538
Net profit for the period	<u>6,513,000</u>	<u>2,230,146</u>	<u>313,835</u>	<u>1,892,783</u>	10,949,764	<u>9,768,424</u>	<u>930,245</u>	<u>251,095</u>	10,949,764
As at 31 December 2017									
Segment total assets	<u>450,441,539</u>	<u>106,156,609</u>	<u>13,606,508</u>	<u>126,839,637</u>	697,044,293	<u>538,512,342</u>	<u>156,465,447</u>	<u>23,406,626</u>	718,384,415
Inter segment balances					(28,075,998)				(49,416,120)
Total assets					<u>668,968,295</u>				<u>668,968,295</u>
Segment total liabilities	<u>438,610,883</u>	<u>100,270,288</u>	<u>6,170,495</u>	<u>49,783,214</u>	594,834,880	<u>451,819,450</u>	<u>144,661,282</u>	<u>19,694,270</u>	616,175,002
Inter segment balances					(28,075,998)				(49,416,120)
Total liabilities					<u>566,758,882</u>				<u>566,758,882</u>

Notes to the condensed consolidated Pro-forma financial statements

1 Interest income

	2018 AED'000	2017 AED'000
<i>Interest from:</i>		
Central banks	968,840	393,633
Banks and financial institutions	1,040,394	534,255
Reverse repurchase agreements	388,117	297,671
Investments at fair value through profit or loss	385,429	425,735
Non-trading investments	2,310,733	2,129,967
Loans and advances	16,742,891	15,065,657
	<u>21,836,404</u>	<u>18,846,918</u>

2 Interest expense

	2018 AED'000	2017 AED'000
<i>Interest to:</i>		
Banks and financial institutions	800,414	698,074
Repurchase agreements	706,723	409,014
Commercial paper	432,428	178,992
Customer accounts and other deposits	5,307,623	3,029,734
Term borrowings	1,542,847	1,404,651
Subordinated notes	20,410	20,402
	<u>8,810,445</u>	<u>5,740,867</u>

3 Net fees and commission income

	2018 AED'000	2017 AED'000
Fee and commission income		
Trade finance	1,053,033	998,445
Collection services	33,569	43,241
Brokerage income	25,535	49,245
Asset management and investment services	141,906	116,331
Investments, derivatives and risk participation	7,090	8,115
Retail and corporate lending	1,333,257	1,171,248
Cards and e-services	1,885,819	1,896,355
Accounts related services	60,165	59,397
Commission on transfers	115,273	116,571
Others	224,341	306,313
Total fee and commission income	<u>4,879,988</u>	<u>4,765,261</u>
Fee and commission expense		
Brokerage commission	42,530	35,553
Handling charges	32,548	30,618
Credit card charges	1,086,900	1,025,697
Retail and corporate lending	306,290	262,840
Others	19,348	48,689
Total fee and commission expense	<u>1,487,616</u>	<u>1,403,397</u>
Net fee and commission income	<u>3,392,372</u>	<u>3,361,864</u>

4 Net foreign exchange gain

	2018 AED'000	2017 AED'000
Trading and retranslation gain on foreign exchange and related derivatives	1,776,161	626,664
Dealings with customers	266,319	376,620
	<u>2,042,480</u>	<u>1,003,284</u>

5 Net gain on investments and derivatives

	2018 AED'000	2017 AED'000
Net realised and unrealised gain on investments at fair value through profit or loss and derivatives	891,021	630,797
Net gain from sale of non-trading Investments	(136,412)	913,064
Dividend income	71,616	38,581
	<u>826,225</u>	<u>1,582,442</u>

6 Other Operating Income

	2018 AED'000	2017 AED'000
Investment property (loss) / income	(75,574)	331,960
Leasing related income	106,905	103,590
Other income	127,375	43,794
	<u>158,706</u>	<u>479,344</u>

Includes gain on sale of property and equipment amounting to AED 111.4 million (2017: AED 2.2 million)

7 General, administration and other operating expenses

	2018 AED'000	2017 AED'000
Staff costs	3,167,377	3,422,654
Other general and administration expenses	1,686,352	1,877,303
Depreciation	235,586	374,101
Intangible amortisation	201,663	159,156
Sponsorships and donations	37,577	42,135
	<u>5,328,555</u>	<u>5,875,349</u>

8 Net impairment charge

	2018 AED'000	2017 AED'000
Impairment charge on loans and advances	2,107,219	2,660,652
other financial assets	33,147	957
unfunded exposure	(326,543)	-
Recoveries	(303,770)	(310,393)
Write-off of impaired financial assets	215,741	33,118
	<u>1,725,794</u>	<u>2,384,334</u>

Consolidated Financial Statements



December 31, 2018



The audited Consolidated Financial Statements are subject to approval of the Central Bank of UAE and adoption by Shareholders at the Annual General Meeting.

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Independent Auditors' Report

To the Shareholders of First Abu Dhabi Bank P.J.S.C.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of First Abu Dhabi Bank P.J.S.C. (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 ("UAE"), 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 judgement, 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 4 for transition impact and notes 12 and 35 of the consolidated financial statements for year-end disclosures.

IFRS 9 "Financial Instruments" ("IFRS 9") was adopted by the Group on 1 January 2018 and has resulted in:

- change in accounting for impairment from an incurred loss model to an expected credit loss model ("ECL") which involves complex estimates and judgements;
- transition adjustments recognised in retained earnings on 1 January 2018, being the date of adoption of IFRS 9;
- use of statistical models and methodologies for determination of expected credit losses;
- significant change in processes, data and control that have not been subject to testing previously; and
- complex disclosure requirements regarding impact of initial application of IFRS 9 and explanation of key judgements and material inputs used in determination of expected credit losses.

Given the inherently judgemental nature of computation of ECL for loans and advances, this is considered a key audit matter.

Our response

We have performed end to end process walkthroughs to identify the key systems, applications and controls used in the ECL Process and to understand the governance framework around model review, validation and approval of ECL model, data gathering and its integrity and underlying estimates and assumptions used by management.

Our procedures included the following:

- Testing key controls over the modelling process, including model review, validation and approval;
- Testing key controls over the accuracy of key inputs and appropriateness of key assumptions and judgments used in the models;
- Testing key controls over significant increase in credit risk ("SICR") criteria involved testing controls relating to authorisation of the criteria and the application of the criteria in the models;
- Testing key controls over internal credit grading (which is a key driver in determining SICR) and monitoring process, to assess if the risk grades allocated to counterparties were appropriately identified and updated on a timely basis;
- Testing key controls relating to the selection and implementation of material economic variables and the controls over the scenario selection and probabilities;



Key audit matters (continued)

Impairment of loans and advances (continued)

- Testing key controls over the assessment of model outputs and authorisation and review of post model adjustments and management overlays;
- We involved our Financial Risk Modelling (“FRM”) specialists to review the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling. This included challenging key assumptions/judgments relating to significant increase in credit risk, definition of default, probability of default, recovery rates, use of macro-economic variables and probability weighted outcomes. FRM specialists also re-performed key elements of the Group’s models calculations and evaluated the models performance results for accuracy;
- We have involved our Information Technology (“IT”) specialists to assist in testing the relevant General IT and Application Controls over Key Systems used in the ECL process;
- Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weightages to confirm the accuracy of information used;
- Re-performing key aspects of the Group’s SICR determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified;
- Selecting a sample of key post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing to source data on a sample basis;
- Performing credit assessments for a sample of selected customers, including Stage 3 customers, to test the appropriateness of the credit grades at a given point in time and assess the financial performance of the borrower, source of repayment and future cash flows of the borrower to assess recoverability and ECL by comparing key assumptions to progress against business plans and our own understanding of relevant industries and business environment and where possible to externally derived evidence such as business performance and real estate valuations for assessing the appropriateness of collateral values held by the Group; and
- Assessing the adequacy of the Group’s disclosure in relation to transition impact arising from first time application of IFRS 9 and use of significant estimates and judgments by reference to the requirements of the relevant accounting standards.



Key audit matters (continued)

Carrying value of goodwill

Refer to note 3 for significant accounting policies and notes 16 and 43 of the consolidated financial statements for year-end disclosures.

During quarter one 2018, the Group finalised a purchase price allocation exercise in order to calculate the carrying value of the National Bank of Abu Dhabi financial assets and liabilities as at the date of acquisition being 1 April 2017. This resulted in the Group recognising goodwill within its balance sheet which is subject to an annual impairment assessment.

Goodwill may be impaired if the carrying value of goodwill in the balance sheet is not supported by the estimates of value-in-use of cash generating units ("CGUs") based on the estimated discounted future cash flows of the underlying business.

The estimation of future cash flows and the assumptions involved in calculating the discounted value of these cash flows by CGUs both involve the application of management judgment and estimation which is considered to be a significant risk.

Our response

Our procedures included the following:

- For each of the CGUs we assessed the reasonableness of the cash flow projections alongside with the growth rate assumption to externally available industry, economic and financial data;
- We involved our valuation specialists to critically assess the appropriateness of the discount rates used in order to determine estimated discounted cash flows and benchmarking these against external data sources and peer banks' data;
- We performed sensitivity analysis over the estimated discounted future cash flows on the sensitivity to the change in discount and growth rate estimates;
- We performed an assessment over management's ability to accurately forecast compared to actual results based on historic data available; and
- We reviewed budgets approved by the Board Management Committee to critically assess whether projected cash flows for the CGUs are in line with approved plans.



Key audit matters (continued)

IT systems integration and controls over financial reporting

Following the merger, we assessed the Group's IT systems, including controls over financial reporting due to the increased risk of error arising from the integration of some financial accounting and reporting systems ("systems") in the current financial year and also maintaining separate systems after the merger up to the date of systems integration, in accordance with the phasing of the system integration plan, resulting in the existence of manual elements within the process of consolidation of the financial information from various sources. Those systems are dependent on complex technology due to the extensive volume and variety of transactions which are processed daily and there is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. Due to the complexity involved in the IT environment, heightened by changes in the systems as a result of the merger, it is considered as a key audit matter.

Our response

Our audit approach relies on automated controls and therefore our procedures are designed to test access and control over relevant IT systems. We performed a combination of controls testing and substantive testing in order to determine whether we could place reliance on the completeness and accuracy of system generated information. We involved our IT audit specialists in the audit of the Group's IT systems.

Our procedures included the following:

- Obtained an understanding of management's plans, processes and controls in relation to the Group IT systems including detailed integration plans;
- Reviewed the governance framework over the Group's IT organization and testing the controls over the program development and changes, access to programs and data and IT operations, including compensating controls where required;
- Assessed the design and tested the operating effectiveness of the controls over the integrity of the IT systems that are relevant to financial reporting;
- Reviewed and tested the data migration process from decommissioned systems to target systems used in the preparation of financial reporting;
- Reviewed and tested the detailed reconciliations performed by management to ensure all balances transferred from the decommissioned systems to the relevant target systems are complete and accurate; and
- Tested the consolidation process and reconciled the audited in scope component information to the consolidation workings of the Group to verify the completeness of the information in the financial reporting systems used to prepare the consolidated financial statements.



Other information

Management is responsible for the other information. The other information comprises the Chairman's statement, but does not include the consolidated financial statements and our audit report thereon, which we obtained prior to the date of this audit report, and the Group's Annual report which are expected to be made available to us after that date.

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

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

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

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

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 auditors' 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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:

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Chairman's statement, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- v) as disclosed in notes 9 and 13 to the consolidated financial statements, the Group has purchased or invested in shares during the financial year ended 31 December 2018;
- vi) note 42 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No.(2) of 2015 or in respect of the Group, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2018; and
- viii) note 34 to the consolidated financial statements discloses the social contributions made during the year.



Report on other legal and regulatory requirements (continued)

Further, as required by the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and clarifications deemed necessary for the purposes of our audit.

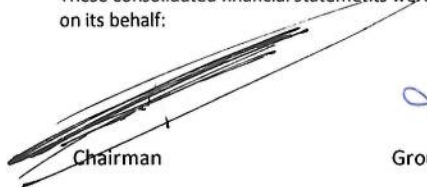
KPMG Lower Gulf Limited
Emilio Pera
Registration number: 1146
Abu Dhabi, United Arab Emirates

Date 31/01/2019

Consolidated statement of financial position As at 31 December

Assets	Note	2018 AED'000	2017 AED'000
Cash and balances with central banks	8	182,908,727	138,111,054
Investments at fair value through profit or loss	9	14,620,910	19,320,764
Due from banks and financial institutions	10	19,176,092	13,829,490
Reverse repurchase agreements	11	19,033,451	21,346,974
Derivative financial instruments	39	13,084,192	11,399,432
Loans and advances	12	353,205,228	330,465,888
Non-trading investments	13	90,433,574	88,457,710
Investment properties	14	7,388,493	6,927,692
Property and equipment	15	3,991,215	3,535,501
Intangibles	16	19,699,711	19,901,374
Other assets	17	20,583,602	15,672,416
Total assets		744,125,195	668,968,295
Liabilities			
Due to banks and financial institutions	18	40,266,535	30,576,336
Repurchase agreements	19	34,769,685	37,674,016
Commercial paper	20	18,144,105	24,124,097
Derivative financial instruments	39	15,219,464	14,941,331
Customer accounts and other deposits	21	465,475,874	395,843,664
Term borrowings	22	42,268,173	42,145,718
Subordinated notes	23	401,979	420,381
Other liabilities	24	25,606,380	21,033,339
Total liabilities		642,152,195	566,758,882
Equity			
Share capital	25	10,897,545	10,897,545
Share premium		53,188,043	53,026,644
Treasury shares		(25,530)	(42,433)
Statutory and special reserves		9,483,238	7,081,074
Other reserves	25	(37,477)	962,736
Tier 1 capital notes	26	10,754,750	10,754,750
Share option scheme	27	266,841	256,265
Convertible notes - equity component		-	108,265
Retained earnings		17,083,868	18,677,552
Total equity attributable to shareholders of the Bank		101,611,278	101,722,398
Non-controlling interest		361,722	487,015
Total Equity		101,973,000	102,209,413
Total liabilities and equity		744,125,195	668,968,295

These consolidated financial statements were approved by the Board of Directors and authorized for issue on 31 January 2019 and signed on its behalf:


 Chairman


 Group Chief Executive Officer


 Group Chief Financial Officer

The notes 1 to 48 are an integral part of these consolidated financial statements.
 The independent auditor's report on audit of consolidated financial statements is set out on pages 2 to 10.

Consolidated statement of profit or loss

For the year ended 31 December

	Note	2018 AED'000	2017 AED'000
Interest income	28	21,836,404	16,331,787
Interest expense	29	(8,810,445)	(4,935,594)
Net interest income		13,025,959	11,396,193
Fee and commission income		4,879,988	4,026,061
Fee and commission expense		(1,487,616)	(1,128,206)
Net fee and commission income	30	3,392,372	2,897,855
Net foreign exchange gain	31	2,042,480	928,188
Net gain on investments and derivatives	32	826,225	686,131
Other operating income	33	158,706	472,090
Operating income		19,445,742	16,380,457
General, administration and other operating expenses	34	(5,328,555)	(4,901,496)
Profit before net impairment charge and taxation		14,117,187	11,478,961
Net impairment charge	35	(1,725,794)	(2,086,717)
Profit before taxation		12,391,393	9,392,244
Overseas income tax expense	36	(325,004)	(224,989)
Profit for the year		12,066,389	9,167,255
Profit attributable to:			
Shareholders of the Bank		12,010,820	9,132,648
Non-controlling interests		55,569	34,607
		12,066,389	9,167,255
Basic earnings per share (AED)	41	1.06	0.91
Diluted earnings per share (AED)	41	1.06	0.91

The notes 1 to 48 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 10.

Consolidated statement of comprehensive income

For the year ended 31 December

	2018 AED'000	2017 AED'000
Profit for the year	12,066,389	9,167,255
Other comprehensive income		
Items that are or may subsequently be reclassified to consolidated statement of profit or loss		
Exchange difference on translation of foreign operations	(270,017)	44,878
Net change in fair value reserve during the year (including ECL)	(936,930)	212,420
Items that will not be subsequently be reclassified to consolidated statement of profit or loss		
Net change in fair value of investments in equity instruments designated at fair value through other comprehensive income	(102,223)	-
Re-measurement of defined benefit obligations	(13,601)	(7,102)
Board of Director's remuneration	(54,750)	(49,000)
Other comprehensive income for the year	<u>(1,377,521)</u>	<u>201,196</u>
Total comprehensive income for the year	<u>10,688,868</u>	<u>9,368,451</u>
Comprehensive income attributable to:		
Shareholders of the Bank	10,655,460	9,314,218
Non-controlling interest	33,408	54,233
Total comprehensive income for the year	<u>10,688,868</u>	<u>9,368,451</u>

The notes 1 to 48 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 10.

Consolidated statement of cash flows

For the year ended 31 December

	Note	2018 AED'000	2017 AED'000
Cash flows from operating activities			
Profit before taxation		12,391,393	9,392,244
Adjustments for:			
Depreciation and amortisation	15,16	437,249	470,574
Loss (gain) on revaluation of investment properties	14	95,764	(179,916)
Gain on sale of investment property		(1,551)	(35,715)
Gain on sale of fixed assets		(111,422)	(2,214)
Net impairment charges	35	2,029,564	2,384,494
Accreted interest		36,452	84,952
Foreign currency translation adjustment		(670,603)	425,056
Share option scheme		10,576	20,467
		14,217,422	12,559,942
Changes in:			
Investments at fair value through profit or loss		7,093,387	(2,343,581)
Due from central banks, banks and financial institutions		(9,379,910)	(2,286,988)
Reverse repurchase agreements		2,298,167	1,978,416
Loans and advances		(26,951,609)	9,340,457
Other assets		(5,009,629)	29,166
Due to banks and financial institutions		9,690,199	(21,993,151)
Repurchase agreements		(2,904,331)	17,964,674
Customer accounts and other deposits		69,633,766	(2,933,193)
Derivative financial instruments		(2,308,854)	645,189
Other liabilities		4,086,161	1,580,062
		60,464,769	14,540,993
Overseas income tax paid, net of recoveries	24	(293,342)	(278,196)
Directors' remuneration paid		(49,000)	(51,000)
		60,122,427	14,211,797
Net cash from operating activities		60,122,427	14,211,797
Cash flows from investing activities			
Net purchase of non-trading investments		(5,381,782)	(12,721,340)
Purchase of investment property		(270,046)	(553,203)
Sale proceeds from disposal of investment property		20,990	263,644
Cash and cash equivalents of subsidiary acquired		-	121,258,636
Purchase of property and equipment, net of disposals		(885,837)	(430,038)
		(6,516,675)	107,817,699
Net cash (used) / from investing activities		(6,516,675)	107,817,699
Cash flows from financing activities			
Proceeds from issue of shares under share option scheme	27	178,302	34,025
Dividend paid	25	(7,578,784)	(4,489,524)
Net movement of commercial paper		(5,979,992)	2,130,547
Issue of term borrowings	22	9,076,645	3,135,955
Repayment of term borrowings	22	(7,735,417)	(11,433,020)
Payment on Tier 1 capital notes	26	(495,047)	(381,089)
		(12,534,293)	(11,003,106)
Net cash used in financing activities		(12,534,293)	(11,003,106)
Net increase in cash and cash equivalents		41,071,459	111,026,390
Cash and cash equivalents at 1 January		134,605,917	23,579,527
Cash and cash equivalents at 31 December	37	175,677,376	134,605,917

The notes 1 to 48 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 10.

Consolidated statement of changes in equity

For the year ended 31 December

	Share capital AED'000	Share premium AED'000	Treasury shares AED'000	Statutory and special reserves AED'000	Other reserves AED'000	Tier 1 capital notes AED'000	Share option scheme AED'000	Convertible notes – equity component AED'000	Retained earnings AED'000	Equity attributable to share-holders of the Group AED'000	Non-controlling interest AED'000	Total AED'000
Balance at 1 January 2017	4,500,000	-	-	11,030,110	725,064	4,000,000	-	-	16,969,016	37,224,190	432,782	37,656,972
Profit for the year	-	-	-	-	-	-	-	-	9,132,648	9,132,648	34,607	9,167,255
Other comprehensive income for the year	-	-	-	-	237,672	-	-	-	(56,102)	181,570	19,626	201,196
Business combination transaction (note 43)	6,397,545	52,997,018	(46,832)	(5,775,566)	-	6,754,750	235,798	108,265	-	60,670,978	-	60,670,978
Accounting policy alignment (note 44)	-	-	-	-	-	-	-	-	(659,283)	(659,283)	-	(659,283)
Transfer during the year	-	-	-	1,826,530	-	-	-	-	(1,826,530)	-	-	-
<u>Transactions with owners of the Group</u>												
Zakat	-	-	-	-	-	-	-	-	(1,108)	(1,108)	-	(1,108)
Share options exercised (note 27)	-	29,626	4,399	-	-	-	-	-	-	34,025	-	34,025
Dividend for the year 2017	-	-	-	-	-	-	-	-	(4,500,000)	(4,500,000)	-	(4,500,000)
Options granted to staff	-	-	-	-	-	-	20,467	-	-	20,467	-	20,467
Payment on Tier 1 capital notes (note 26)	-	-	-	-	-	-	-	-	(381,089)	(381,089)	-	(381,089)
Balance at 31 December 2017	<u>10,897,545</u>	<u>53,026,644</u>	<u>(42,433)</u>	<u>7,081,074</u>	<u>962,736</u>	<u>10,754,750</u>	<u>256,265</u>	<u>108,265</u>	<u>18,677,552</u>	<u>101,722,398</u>	<u>487,015</u>	<u>102,209,413</u>
Balance at 1 January 2018	10,897,545	53,026,644	(42,433)	7,081,074	962,736	10,754,750	256,265	108,265	18,677,552	101,722,398	487,015	102,209,413
Impact of adopting IFRS 9 at 1 January 2018 (note 4)	-	-	-	-	(184,078)	-	-	-	(2,682,560)	(2,866,638)	(158,701)	(3,025,339)
Restated balance at 1 January 2018	10,897,545	53,026,644	(42,433)	7,081,074	778,658	10,754,750	256,265	108,265	15,994,992	98,855,760	328,314	99,184,074
Profit for the year	-	-	-	-	-	-	-	-	12,010,820	12,010,820	55,569	12,066,389
Other comprehensive income for the year	-	-	-	-	(1,287,009)	-	-	-	(68,351)	(1,355,360)	(22,161)	(1,377,521)
<u>Transactions with owners of the Group</u>												
Zakat	-	-	-	-	-	-	-	-	7,597	7,597	-	7,597
Share options exercised (note 27)	-	161,399	16,903	-	-	-	-	-	-	178,302	-	178,302
Dividend for the year (net of treasury shares)	-	-	-	-	-	-	-	-	(7,601,370)	(7,601,370)	-	(7,601,370)
Options granted to staff	-	-	-	-	-	-	10,576	-	-	10,576	-	10,576
Payment on Tier 1 capital notes (note 26)	-	-	-	-	-	-	-	-	(495,047)	(495,047)	-	(495,047)
Transfer during the year	-	-	-	2,402,164	108,265	-	-	(108,265)	(2,402,164)	-	-	-
IFRS 9 reserve movement	-	-	-	-	362,609	-	-	-	(362,609)	-	-	-
Balance at 31 December 2018	<u>10,897,545</u>	<u>53,188,043</u>	<u>(25,530)</u>	<u>9,483,238</u>	<u>(37,477)</u>	<u>10,754,750</u>	<u>266,841</u>	<u>-</u>	<u>17,083,868</u>	<u>101,611,278</u>	<u>361,722</u>	<u>101,973,000</u>

The notes 1 to 48 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 10.

Notes to the consolidated financial statements

1 Legal status and principal activities

On 7 December 2016, Shareholders of National Bank of Abu Dhabi PJSC (“NBAD”) and First Gulf Bank PJSC (“FGB”) approved the merger of the two banks pursuant to Article 283(1) of UAE Federal Law No. 2 of 2015 Concerning Commercial Companies (the Law). The merger was effected through the issuance of 1.254 new NBAD shares for every 1 share in FGB on close of business 30 March 2017, subsequent to which FGB shares were delisted from Abu Dhabi Securities Exchange. On 25 April 2017, NBAD shareholders approved the proposal to change the name of the combined bank to ‘First Abu Dhabi Bank’ (the “Bank”) and have its registered office in FAB Building, Khalifa Business Park 1 Al Qurum P. O. Box 6316 Abu Dhabi, United Arab Emirates.

These consolidated financial statements as at and for the year ended 31 December 2018 comprises the Bank and its subsidiaries (together referred to as the “Group”). The Group is primarily engaged in corporate, retail, private and investment banking activities, management services, Islamic banking activities, real estate activities; and carries out its operations through its local and overseas branches, subsidiaries and representative offices located in the United Arab Emirates, Bahrain, Brazil, Cayman Islands, China, Egypt, France, Hong Kong, India, Jordan, Kingdom of Saudi Arabia, Kuwait, Lebanon, Libya, Malaysia, Oman, Qatar, Singapore, South Korea, Sudan, Switzerland, the United Kingdom and the United States of America.

The Group’s Islamic banking activities are conducted in accordance with Islamic Sharia’a laws issued by the Sharia’a Supervisory Board.

The Group is listed on the Abu Dhabi Securities Exchange (Ticker: FAB).

The consolidated financial statements of the Group as at and for the year ended 31 December 2018 are available upon request from the Group’s registered office or at <http://www.bankfab.com>

2 Basis of Preparation

(a) Statement of Compliance

These consolidated financial statements have been prepared on going concern basis in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and the requirements of applicable laws in the UAE.

On 1 April 2015, UAE Federal Law No 2 for Commercial Companies (“UAE Companies Law of 2015”) was issued with effective date 1 July 2015. The Bank is in compliance with applicable sections of the UAE Companies Law of 2015 as at the date of these financial statements.

These consolidated financial statements were authorised for issue by the Board of Directors on 31 January 2019.

(b) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred and included in general, administration and other operating expenses, except if related to the issue of debt or equity securities.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Notes to the consolidated financial statements (continued)

2 Basis of Preparation (continued)

(b) Business combinations (continued)

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred or in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(c) Basis of measurement

These consolidated financial statements are prepared under the historical cost basis except for the following:

- investments at fair value through profit or loss are measured at fair value;
- derivative financial instruments are measured at fair value;
- equity instruments designated at fair value through other comprehensive income are measured at fair value (effective January 1, 2018);
- debt instruments measured at fair value through other comprehensive income are measured at fair value (effective January 1, 2018);
- non-trading investments classified as available-for-sale are measured at fair value (applicable prior to January 1, 2018);
- recognised assets and liabilities designated as hedged items in qualifying hedge relationships are adjusted for changes in fair value attributable to the risk being hedged; and
- non-financial assets acquired in settlement of loans and advances are measured at the lower of their fair value less costs to sell and the carrying amount of the loan and advances.

(d) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated. Items included in the financial statements of each of the Bank's overseas subsidiaries and branches are measured using the currency of the primary economic environment in which they operate.

(e) Use of estimates and judgements

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

Notes to the consolidated financial statements (continued)

2 Basis of Preparation (continued)

(e) Use of estimates and judgements (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these consolidated financial statements are described in note 6.

3 Significant accounting policies

(a) New and Amended standards and interpretations adopted

The Group has adopted IFRS 9 and IFRS 15 from 1 January 2018. Also, the Group early adopted Prepayment Features with Negative Compensation (Amendments to IFRS 9), issued in October 2017. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

Due to the transition method chosen by the Group in applying IFRS 9, comparative information throughout these consolidated financial statements has not been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 4); and
- additional disclosures related to IFRS 9 (see Notes 5(a)).
- additional disclosures related to IFRS 15.

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

(i) IFRS 9 – Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation. As a result the 80-125% range under IAS 39 is replaced by an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

IFRS 9 also introduces rebalancing of hedging relationships, whereby, if a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio under IFRS 9, but the risk management objective for that designated hedging relationship remains the same, the Group shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures related to 2018, but have not been applied to the comparative information.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 4.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(a) New and Amended standards and interpretations adopted *(continued)*

(i) IFRS 9 – Financial Instruments *(continued)*

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see Note 3(c)(ii).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see Note 3(c)(ii).

Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (“ECL”) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 3(c)(vii).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
 - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 4.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(a) New and Amended standards and interpretations adopted (continued)

(ii) IFRS 15 - Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements.

(b) Basis of consolidation

(i) Subsidiaries

IFRS 10 governs the basis for consolidation where it establishes a single control model that applies to all entities including special purpose entities or structured entities. The definition of control is such that an investor controls an investee when 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. To meet the definition of control in IFRS 10, all three criteria must be met, including:

- (a) the investor has power over an investee;
- (b) the investor has exposure to, or rights, to variable returns from its involvement with the investee; and
- (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

Subsidiaries are entities that are controlled by the Group. The Group controls the investee if it meets the control criteria set out above. The Group reassesses whether it has control if, there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements comprise the financial statements of the Group and those of its following subsidiaries:

Legal Name	Country of incorporation	Principal activities	Holding % 2018
First Abu Dhabi Bank USA N.V.	Curacao	Banking	100%
FAB Securities LLC	United Arab Emirates	Brokerage	100%
Abu Dhabi National Leasing LLC	United Arab Emirates	Leasing	100%
Abu Dhabi National Properties Pvt. JSC	United Arab Emirates	Property Management	100%
FAB Private Bank (Suisse) SA	Switzerland	Banking	100%
First Abu Dhabi Islamic Finance PJSC	United Arab Emirates	Islamic Finance	100%
Abu Dhabi Securities Brokerage Egypt	Egypt	Brokerage	96%
National Bank of Abu Dhabi Malaysia Berhad	Malaysia	Banking	100%
NBAD Employee Share Options Limited	United Arab Emirates	Shares and Securities	100%
SAS 10 Magellan	France	Leasing	100%
National Bank of Abu Dhabi Representações Ltda	Brazil	Representative office	100%
NBAD Financial Markets (Cayman) Limited	Cayman Islands	Financial Institution	100%
Nawat Management Services - One Man Company LLC	United Arab Emirates	Services	100%

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(b) Basis of consolidation (continued)

(i) Subsidiaries (continued)

Legal Name	Country of incorporation	Principal activities	Holding % 2018
Mismak Properties Co. LLC (Mismak)	United Arab Emirates	Real estate investments	100%
Moora Properties Co. LLC (Subsidiary of Mismak)	United Arab Emirates	Real estate investments	67%
First Merchant International LLC (FMI)	United Arab Emirates	Real estate investments	100%
FAB Employment Services LLC (Subsidiary of FMI)	United Arab Emirates	Resourcing services	100%
FAB Resourcing Services LLC (Subsidiary of FMI)	United Arab Emirates	Resourcing services	100%
FAB Sukuk Company Limited	Cayman Islands	Special purpose vehicle	100%
FGB Sukuk Company II Limited	Cayman Islands	Special purpose vehicle	100%
First Gulf Libyan Bank ¹	Libya	Banking services	50%
FGB Global Markets Cayman Limited	Cayman Islands	Financial Institution	100%
FAB Properties LLC	United Arab Emirates	Management and brokerage of real estate properties	100%
Aseel Finance PJSC	United Arab Emirates	Islamic finance	100%
Dubai First PJSC	United Arab Emirates	Credit card finance	100%
First Gulf Information Technology LLC	United Arab Emirates	IT Services	100%
FAB Investment KSA (single Shareholder LLC)	Kingdom of Saudi Arabia	Financial Institution	100%

¹ Although the Bank owns 50% of the outstanding shares of First Gulf Libyan Bank, the investment has been classified as a subsidiary as the Bank exercises control over the investee because it casts the majority of the votes on the board of directors.

(ii) Structured entities

A structured entity is established by the Group to perform a specific task. Structured entities are designed so that their activities are not governed by way of voting rights. In assessing whether the Group acts as a principal or has power over investees in which it has an interest, the Group considers factors such as the purpose and design of the investee, its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund. Whilst assessing control, the Group reviews all facts and circumstances to determine whether as a fund manager the Group is acting as agent or principal. If deemed to be a principal, the Group controls the fund and would consolidate them else as an agent the Group would account for them as investments in funds.

The Group's interest in investment funds in which it act as an agent is set out below, these funds are included as part of investments.

Type of Structured Entity	Nature and purpose	Interest held by the Group
Investment Funds managing assets on	Generate fees from managing assets on behalf of third-party investors	Investments in units issued by the fund amounting to AED 2,050 thousand (2017: AED 20,069 thousand)

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(b) Basis of consolidation (continued)

(iii) Joint Arrangements and Investments in Associates

An Associate is an investee over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Investment in associates is accounted under the equity method of accounting.

A joint arrangement is an arrangement between the Group and other parties where the Group along with one or more parties has joint control by virtue of a contractual agreement. Joint arrangement may be a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to and record their respective share of the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement, have rights to the net assets of the arrangement and, thus, are accounted under the equity method of accounting.

Under the equity method, the investment in an associate is initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of income reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of income. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the consolidated statement of income.

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value when control is lost.

(v) Transactions eliminated on consolidation

The carrying amount of the Group's investment in each subsidiary and the equity of each subsidiary are eliminated on consolidation. All significant intra-group balances, transactions and unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Financial assets and liabilities

(i) Recognition and initial measurement

The Group initially recognised loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (excluding regular way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(i) Recognition and initial measurement (continued)

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

(ii) Classification

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost 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 to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest (“SPPI”).

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 SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

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

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

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(ii) Classification (continued)

Financial assets – Policy applicable from 1 January 2018 (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Financial assets – Policy applicable prior to 1 January 2018

The Group classifies its financial assets into one of the following categories:

(a) Fair value through profit or loss

(i) Designation at fair value through profit or loss

The Group designates financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

(ii) Held for trading

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

Fair value through profit or loss assets is not reclassified subsequent to their initial recognition.

(b) Loans and receivables

Loans and receivables include cash and balances with central banks, due from bank and financial institutions, finance lease receivables, reverse repurchase agreements and loans and advances. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(ii) Classification (continued)

Financial assets – Policy applicable prior to 1 January 2018 (continued)

(c) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity.

(d) Available-for-sale

The Group has non-derivative financial assets designated as available-for-sale when these are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available for sale assets are intended to be held for an indefinite period of time and may be sold in future to manage liquidity requirements or in response to market fluctuation in interest rates or pricing of the financial assets.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also 3(iv)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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 transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and 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.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(iii) Derecognition *(continued)*

Financial assets *(continued)*

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 if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Modifications of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees receivable as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(iv) Modifications of financial assets and financial liabilities *(continued)*

Policy applicable from 1 January 2018 *(continued)*

Financial liabilities

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable prior to 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Group evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see 3(iii)) and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate (see 3(vii)).

Financial liabilities

The Group derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intend either to settle 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 IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date 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 on-going basis.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(vi) Fair value measurement (continued)

If there is no quoted price in an active market, then the Group uses the valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all 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, 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 supported wholly 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, 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. These portfolio level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of investments in mutual funds, private equity funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving similar investments, are based on the expected discounted cash flows.

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 recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

(vii) Impairment

Policy applicable from 1 January 2018

The Bank recognises loss allowances for Expected Credit Loss (ECL) on the following financial instruments that are not measured at FVTPL:

- balances with central banks;
- due from banks and financial institutions;
- reverse repurchase agreements;
- financial assets that are debt instruments;
- loans and advances;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(vii) Impairment *(continued)*

Policy applicable from 1 January 2018 *(continued)*

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 5(a)).

Measurement of ECL

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be impaired, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD)

These parameters are generally derived from statistical models and other historical data. They are adjusted to reflect forward-looking information. Additionally, the Group has elaborate review process to adjust ECL for factors not available in the model.

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(vii) Impairment *(continued)*

Restructured financial assets

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 of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the expected restructuring will result 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 included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'net impairment charge' in the statement of profit or loss. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Central Bank of UAE ("CBUAE") provision requirements

As per the CBUAE notice no. CBUAE/BS/2018/458 dated 30 April 2018, clause 6.4, if the specific provision and general/collective provision cumulatively is higher than the impairment allowance computed under IFRS 9, the differential should be transferred to an "Impairment Reserve" as an appropriation from the Retained earnings. This

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(vii) Impairment *(continued)*

Central Bank of UAE (“CBUAE”) provision requirements

Impairment Reserve should be split to that which relates to difference in specific provision and general/collective provision. The Impairment reserve will not be available for payment of dividend.

Policy prior to 1 January 2018

An assessment is made at each reporting date and periodically during the year to determine whether there is any objective evidence that financial assets not carried at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence indicates 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 of the asset that can be estimated reliably.

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 an advance by the Group on terms that the Group would not otherwise consider, indications 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 changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held to maturity investment securities at both specific and collective levels. All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are required to be collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

In assessing collective impairment the Group uses IFRS and Central Bank of UAE guidelines to establish a statistical modelling which incorporates historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the original effective interest rate. Impairment losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against such financial assets. 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.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

Impairment losses on unquoted equity instruments that are carried at cost because their fair value cannot be reliably measured, are measured as the difference between the carrying amount of the financial assets and the present values of estimated future cash flows discounted at the current market rate of return for similar financial assets. Such impairment losses shall not be reversed.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(d) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with central banks and due from banks and financial institutions with original maturities of less than three months, which are subject to insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are non-derivative financial assets stated at amortised cost in the consolidated statement of financial position.

(e) Due from banks and financial institutions

These are non-derivative financial assets that are stated at amortised cost, less any allowance for impairment.

(f) Investments at fair value through profit or loss

These are securities that the Group acquire principally for the purpose of selling in the near term or holding as a part of portfolio that is managed together for short-term profit or position taking. These assets are initially recognised and subsequently measured at fair value in the consolidated statement of financial position. All changes in fair values are recognised as part of profit or loss.

(g) Reverse repurchase agreements

Assets purchased with a simultaneous commitment to resell at a fixed price on a specified future date are not recognised. The amount paid to the counterparty under these agreements is shown as reverse repurchase agreements in the consolidated statement of financial position. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

(h) Loans and advances

Policy applicable from 1 January 2018

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- finance lease receivables.

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

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

In determining whether an arrangement is a lease, the Group ascertains the substance of the arrangement and assesses whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the assets.

These are derecognised when either the borrower repays its obligations or the loan are sold or written-off.

Policy applicable prior to 1 January 2018

Loans and advances include loans and advances originated by the Group which is not classified as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are sold or written off. These are initially measured at fair value (being the transaction price at inception) plus incremental direct transaction costs and subsequently measured at

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(h) Loans and advances *(continued)*

Policy applicable prior to 1 January 2018 *(continued)*

amortised cost using the effective interest rate method, adjusted for effective fair value hedges for the risk being hedged, net of interest suspended and provisions for impairment.

Loans and advances include direct finance provided to customers such as overdrafts, credit cards, term loans, finance lease receivables and commercial bills.

(i) Islamic financing and investing contracts

The Group engages in Sharia'a compliant Islamic banking activities through various Islamic instruments such as Ijara, Murabaha, Mudaraba and Wakala.

(i) Definitions

Ijara

Ijara consists of Ijara muntahia bitamleek.

Ijara financing is an agreement whereby the Group (lessor) leases or constructs an asset based on the customer's (lessee) request and promise to lease the assets for a specific period against certain rent instalments. Ijara could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and rewards related to the ownership of the leased asset to the lessee. Ijara income is recognised on an effective profit rate basis over the lease term.

Murabaha

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

Mudaraba

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal. Income is recognised based on expected results adjusted for actual results on distribution by the Mudarib, whereas if the Group is the Rab Al Mal the losses are charged to the Group's consolidated income statement when incurred.

Wakala

An agreement between the Group and customer whereby one party (Rab Al Mal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

Estimated income from Wakala is recognised on the effective profit rate basis over the period, adjusted by actual income when received. Losses are accounted for when incurred.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(i) Islamic financing and investing contracts (continued)

(ii) Revenue recognition

Ijara

Income from Ijara is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Murabaha

Income from Murabaha is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Mudaraba

Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the consolidated statement of profit or loss on their declaration by the Mudarib.

Wakala

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(j) Non-trading investments

Policy applicable from 1 January 2018

The 'non-trading investments' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI;
- equity investment securities designated as at FVOCI; and
- Investment in associate and joint venture

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(j) Non-trading investments *(continued)*

Policy prior to 1 January 2018

Included in non-trading investments are FVOCI (both equity and debt) which are initially recognised at fair value plus incremental transaction costs directly attributable to the acquisition. Prior to 1 January 2018, non-trading investments includes available-for-sale assets (debt and equity) which are initially recognised at fair value plus incremental transaction costs directly attributable to the acquisition.

After initial recognition, these investments are re-measured at fair value. For investments which are not part of an effective hedge relationship, unrealised gains or losses are recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income, is included in the consolidated statement of profit or loss for the year. For investments which are part of an effective fair value hedge relationship, any unrealised gain or loss arising from a change in fair value is recognised directly in the consolidated statement of profit or loss to the extent of the changes in fair value being hedged.

Interest income is recognised on FVOCI debt securities using the effective interest rate, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of debt investment securities are included in the calculation of their effective interest rates. Dividends on equity instruments are recognised in the statement of profit or loss when the right to receive payment has been established.

For the purpose of recognising foreign exchange gains and losses, an available-for-sale financial asset is treated as if it were carried at amortised cost in the foreign currency. Accordingly, for such a financial asset, exchange differences are recognised in the consolidated statement of profit or loss.

For unquoted equity investments where fair value cannot be reliably measured, these are carried at cost less provision for impairment in value. Upon de-recognition, the gain or loss on sale is recognised in the consolidated statement of profit or loss for the year.

Included in non-trading investments are held-to-maturity assets which are non-derivative assets with fixed or determinable payments and fixed maturity and that the Group has the positive intent and ability to hold them till maturity. These are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not necessarily trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications, which are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated

(k) Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement under 'other income' in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(I) Property and equipment

(i) Recognition and measurement

All items of property and equipment are measured at cost less accumulated depreciation and impairment losses, if any, except for land, which is measured at fair value. Capital projects in progress are initially recorded at cost and regularly tested for impairment and upon completion are transferred to the appropriate category of property and equipment and thereafter depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other operating income in the consolidated statement of profit or loss.

Subsequent expenditures are only capitalised when it is probable that the future economic benefits of such expenditures will flow to the Group. On-going expenses are charged to consolidated statement of profit or loss as incurred.

(ii) Depreciation

Depreciation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of all property and equipment. Freehold land and capital work in progress are not depreciated.

The estimated useful lives of assets for the current and comparative period are as follows:

Buildings and villas	20 to 50 years
Office furniture and equipment	5 to 7 years
Fit-out leased premises	10 years
Safes	10 years
Computer systems and equipment	3 to 7 years
Vehicles	3 years

Depreciation methods, useful lives and residual values are reassessed at every reporting date.

(ii) Capital work in progress

Capital work in progress assets are assets in the course of construction for production, supply or administrative purposes, are carried at cost, less any recognised impairment loss. Cost includes all direct cost attributable to design and construction of the property capitalised in accordance with Group's accounting policy. When the assets are ready for the intended use, the capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with the Group's policies.

(iii) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or group of CGUs that are expected benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less cost to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset or CGU.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(l) Property and equipment *(continued)*

(iv) Impairment of non-financial assets

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of any other assets in the CGU on a prorated basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

(m) Intangible assets

Goodwill arises on the acquisition represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired in case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill and license acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill and license impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

The Group's intangible assets other than goodwill include intangible assets arising out of business combinations. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

The estimated useful lives of the intangible assets for the calculation of amortisation are as follows:

Customer relationships	7.5 – 15 years
Core deposits	2.5 years – 15 years
Brand	20 years

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(n) Collateral pending sale

Real estate and other collateral may be acquired as the result of settlement of certain loans and advances and are recorded as assets held for sale and reported in "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the consolidated statement of profit or loss. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the consolidated statement of profit or loss. The Group's collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Group operates.

(o) Due to banks and financial institutions, Customer accounts and other deposits and Commercial Paper

Due to banks and financial institutions, customer deposits and Commercial Paper are financial liabilities and are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method.

(p) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a fixed price on a specified future date are not derecognised. The liability to the counterparty for amounts received under these agreements is shown as repurchase agreements in the consolidated statement of financial position. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

(q) Term borrowings and subordinated notes

Term borrowings and subordinated notes include convertible notes that can be converted into share capital at the option of the holder, where the number of shares issued do not vary with changes in their fair value, are accounted for as compound financial instruments. The equity component of the convertible notes is calculated as the excess of issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option.

Term borrowing which are designated at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the Group assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- the impact on profit or loss of expected changes in fair value of the related instruments.

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

Term borrowings and subordinated notes without conversion option and that are at fair value through profit or loss are financial liabilities which are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method and adjusted to the extent of fair value changes for the risks being hedged.

(r) Treasury shares

Own equity instruments which are acquired (treasury shares) are deducted from the equity and accounted for at weighted average cost. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration,

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(r) Treasury shares

if reissued, is recognised in share premium. If treasury shares are distributed as part of a bonus share issue, the cost of the shares is charged against retained earnings. Voting rights relating to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

(s) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

(t) Share option scheme

On the grant date fair value of options granted to staff is estimated and the cost is recognised as staff cost, with a corresponding increase in equity, over the period required for the staff to become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options for which the related service conditions are expected to be met; as such the amount ultimately recognised as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date. These shares may contribute to the calculation of dilutive EPS once they are deemed as potential ordinary shares.

(u) Interest income and expense

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

The calculation of the effective interest rate includes transaction costs and fees and points 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 financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(u) Interest income and expense (continued)

Policy applicable from 1 January 2018 (continued)

Calculation of interest income and expense (continued)

date amortisation of the hedge adjustment begins.

For information on when financial assets are credit-impaired, see Note 3(c)(vii).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- 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 as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost; and
- 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 as the hedged cash flows affect interest income/expense.
- 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 financial assets and financial liabilities at FVTPL are presented as in interest income or interest expense from financial instruments at FVTPL.

Policy applicable prior to 1 January 2018

Interest income and expense are recognised in the consolidated statement of profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts. 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 liabilities at amortised cost on an effective interest rate basis;
- interest on available-for-sale investment securities on an effective interest rate basis;
- interest on held for trading securities and derivative financial instruments on an effective interest rate 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 as hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(v) Income from Islamic financing activities

Ijara income is recognised on a time-proportion basis over the lease term.

Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding. Mudaraba income is recognised based on expected results adjusted for actual results on distribution by the Mudarib, whereas if the Group is the Rab Al Mal the losses are charged to the Group's consolidated income statement when incurred.

(w) Depositors' share of profit

Depositors' share of profit is amount accrued as expense on the funds accepted from banks and customers in the form of wakala and mudaraba deposits and recognised as expenses in the consolidated statement of profit or loss. The amounts are calculated in accordance with agreed terms and conditions of the wakala deposits and Sharia'a principles.

(x) Fee and commission income and expense

The Group earns fee and commission income from a diverse range of services provided to its customers. The basis of accounting treatment of fees and commission depends on the purposes for which the fees are collected and accordingly the revenue is recognised in consolidated statement of profit or loss. Fee and commission income is accounted for as follows:

- income earned from the provision of services is recognised as revenue as the services are provided;
- income earned on the execution of a significant act is recognised as revenue when the act is completed;
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in "Interest income".

A contract with a customer that results in a recognised financial instrument in the Group's consolidated financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Fee and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

(y) Zakat

Zakat represents Islamic business zakat payable by the Group on behalf of its shareholders to comply with the principles of Sharia'a and is approved by the Sharia'a Supervisory Board. The Group's appointed Zakat Committee is mandated to recommend zakat distribution.

(z) Net gain/loss on investments and derivatives

Net gain on investments and derivatives comprises realised and unrealised gains and losses on investments at fair value through profit or loss and derivatives, realised gains and losses on non-trading investments and dividend income. Net gain on investment at fair value through profit or loss includes changes in the fair value of financial assets and financial liabilities designated at fair value.

Gains and losses arising from changes in fair value of FVOCI assets are recognised in the statement of other comprehensive income and recorded in fair value reserve with the exception of ECL, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets which are recognised directly in the consolidated statement of profit or loss. Where the investment is sold or realised, the cumulative gain or loss previously recognised in equity under fair value reserve is reclassified to the consolidated statement of profit or loss in case of debt instruments.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(z) Net gain/loss on investments and derivatives *(continued)*

Non-trading investment includes FVOCI and amortised cost instruments.

The Group also holds investments in assets issued in countries with negative interest rates. The Group discloses interest paid on these assets in the line where its economic substance of transaction is reflected (note 31)

Amortised cost investments, which are not close to their maturity are not ordinarily sold. However when they are sold or realised, the gain or loss is recognised in the consolidated statement of profit or loss.

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

(aa) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rates at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on transaction are generally recognised in profit or loss. However, foreign currency differences arising from the transaction arising from the translation of the following item are recognised in OCI.

- available for sale equity instruments / FVOCI equity instruments
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective
- qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations

The activities of subsidiaries and branches based outside the UAE are not deemed an integral part of the head office operations, as they are financially and operationally independent of the head office. The assets and liabilities of the foreign operations are translated into UAE Dirhams at rates of exchange at the reporting date. The income and expense of foreign operations are translated at average rates, as appropriate. Exchange differences (including those on transactions which hedge such investments) arising from retranslating the opening net assets, are taken directly to foreign currency translation adjustment account in other comprehensive income.

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to the 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 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 recognised in OCI, and accumulated in the translation reserve in the equity.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(ab) Overseas income tax expense

Income tax expense comprises of the current and deferred tax. It is recognised in profit or loss except the extent it relates to items recognised directly in equity or OCI.

Current tax is provided for in accordance with fiscal regulations of the respective countries in which the Group operates and is recognised in the consolidated statement of profit or loss. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest maybe due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(ac) Derivative financial instruments and hedging

Derivatives are initially recognised, and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of profit or loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative or using valuation techniques, mainly discounted cash flow models.

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument and, if so, the nature of the risk being hedged. All gains and losses from changes in fair value of derivatives held for trading are recognised in the consolidated statement of profit or loss. When derivatives are designated as hedges, the Group classifies them as either: (i) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (ii) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; (iii) hedge of net investment which are accounted similarly to a cash flow hedge. Hedge accounting is applied to derivatives designated as hedging instruments in a fair value or cash flow, provided the criteria are met.

Embedded derivatives

Policy applicable from 1 January 2018

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(ac) Derivative financial instruments and hedging *(continued)*

Embedded derivatives *(continued)*

Policy applicable from 1 January 2018 *(continued)*

- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Policy applicable prior to 1 January 2018

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristic and risks of the embedded derivative are not closely related to the economic characteristics and risk of the host contract. Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship, and are presented separately from host contract in the consolidated statement of financial position.

Hedge accounting

It is the Group's policy to document, at the inception of a hedge, the relationship between hedging instruments and hedged items, as well as risk management objective and strategy. The policy also requires documentation of the assessment, at inception and on an on-going basis, of the effectiveness of the hedge.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, as to whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecasted transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Fair value hedge

In relation to fair value hedges, any gain or loss from re-measuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated statement of profit or loss together with the changes in the fair value of the hedged item that are attributable to the hedged risk. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. However if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated. Any adjustment up to that period to the hedged item for which effective interest rate method was used is amortised to the consolidated statement of profit or loss as a part of the recalculated effective interest rate of the then hedged item over its remaining life.

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flow attributable to a particular risk associated with a recognised assets or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivatives is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss and in the same line in the statement of profit or loss and OCI. If the hedging derivative expires

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(ac) Derivative financial instruments and hedging (continued)

Embedded derivatives (continued)

Cash flow hedge (continued)

of sold, terminated or exercised or the hedge, no longer meets the criteria for cash flow hedge accounting the hedge accounting is discounted prospectively. However if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

Net investments hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of the changes in the fair value of the hedging instrument is recognised in other comprehensive income in the translation reserve. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in the consolidated statement of profit or loss. The amount recognised under other comprehensive income is reclassified to statement of profit or loss on disposal of the foreign operation.

Other derivatives

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting or are not designated as such are recognised immediately in the consolidated statement of profit or loss as a component of net gain on investments and derivatives or net foreign exchange gain.

(ad) 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. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(ae) Employees' end of service benefit

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

With respect to its UAE national employees, the Group makes contributions to the relevant government pension scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity or to a government organisation and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated statement of profit or loss in the periods during which services are rendered by employees.

Pension and national insurance contributions for eligible employees are made by the Group to Pensions and Benefits Fund in accordance with the applicable laws of country where such contributions are made.

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in respect of defined benefit gratuity plans is the present value of the defined

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(ae) Employees' end of service benefit *(continued)*

Defined benefit plan *(continued)*

benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. Net interest expense and other expenses related to defined benefit plans are recognised in Staff cost in consolidated statement of profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately to profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(af) Directors' remuneration

Pursuant to Article 118 of the Commercial Companies Law No. 8 of 1984 and in accordance with the Bank's Articles of Association, Directors' shall be entitled for remuneration which shall not exceed 10% of the net profits after deducting depreciation, reserves and distribution of dividends not less than 5% of capital to shareholders.

(ag) Fiduciary activities

Assets held in a fiduciary capacity are not treated as assets of the Group as they are only held in trust where the Group acts as a custodian on customers' behalf. The Group has no liability or obligations towards the customer on these assets held in trust. Accordingly, these assets are not included in these consolidated financial statements.

(ah) 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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise of convertible notes and share options granted to staff.

(ai) 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, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Executive, being the chief operating decision maker, to make decisions about resources to be allocated to the segment and to assess its performance for which discrete financial information is available. Segment results that are reported to the Group Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(aj) Lease payments

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(aj) Lease payments *(continued)*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the shorter of the lease term or the estimated useful life of the asset.

(ak) Settlement date accounting

Purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group settles the purchase or sale of an asset.

(al) Taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

(am) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Certain financial guarantee contracts in the nature of credit default guarantees are not held for proprietary trading purposes and are treated as insurance contracts and accounted for under IFRS 4.

For other financial guarantee contracts, these are initially recognised at their fair value (which is the premium received on issuance). The received premium is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

Financial guarantees are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on loans and advances. If a specific provision is required for financial guarantees, the related unearned commissions recognised under other liabilities in the consolidated balance sheet are reclassified to the appropriate provision.

(an) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(an) New standards and interpretations not yet adopted (continued)

A. IFRS 16 Leases

The IASB issued a new standard for accounting for leases in January 2018.

- The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets.
- Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets.
- Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Group has assessed the impact of above standard. Based on the assessment, the above standard has no material impact on the consolidated financial statements of the Group as at the reporting date.

B. Other standards

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to References to Conceptual Framework in IFRS Standards
- IFRS 17 Insurance Contracts.

4 Transitional impact

The impact from the adoption of IFRS 9 as at 1 January 2018 on the retained earnings, fair value reserve and non-controlling interests is as follows:

	Retained earnings AED'000	Fair value reserve AED'000	Non-controlling interest AED'000	Total AED'000
Balance as at 31 December 2017 under IAS 39	18,677,552	625,210	487,015	19,789,777
Impact on reclassification and re measurements:				
Investment securities (debt) from held to maturity to those measured at fair value through other comprehensive income	-	24,138	-	24,138
Investment securities (debt) from available-for-sale to those measured at fair value through profit or loss	602	(602)	-	-
Investment securities (equity) from available-for-sale to those measured at fair value through profit or loss	(47,015)	47,015	-	-
Investment securities (private equity) from available-for-sale to those measured at fair value through profit or loss	303,742	(303,742)	-	-
Impact on recognition of Expected Credit Losses				
On financial assets and unfunded exposures (net of tax)	(2,939,889)	49,113	(158,701)	(3,049,477)
Opening balance under IFRS 9 on date of initial application of 1 January 2018	15,994,992	441,132	328,314	16,764,438

Notes to the consolidated financial statements (continued)

4 Transitional impact (continued)

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

	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount AED'000	Reclassification to other category AED'000	Re-measurements AED'000	Impact of ECL AED'000	IFRS 9 carrying amount AED'000
Financial assets							
Cash and balances with central banks	Loans and receivables	Amortised cost	138,111,054	-	-	(278,979)	137,832,075
Investments at fair value through profit or loss	FVTPL	FVTPL	19,320,764	2,393,533	-	-	21,714,297
Due from banks and financial institutions	Loans and receivables	Amortised cost	13,829,490	-	-	(27,796)	13,801,694
Reverse repurchase agreements	Loans and receivables	Amortised cost	21,346,974	-	-	(5,895)	21,341,079
Derivative financial instruments	FVTPL	FVTPL	11,399,432	-	-	-	11,399,432
Loans and advances	Loans and receivables	Amortised cost	330,465,888	-	-	(1,889,336)	328,576,552
Non-trading investments							
	Held to maturity	Amortised cost	7,075,467	(873,590)	-	(63,937)	6,137,940
	Available for sale - debt	FVOCI Debt	78,984,329	580,683	24,138	-	79,589,150
	Available for sale - equity	FVOCI Equity	2,328,154	(2,100,626)	-	-	227,528
Other assets	Loans and receivables	Amortised cost	15,542,116	-	-	(42,075)	15,500,041
Total Financial Assets			638,403,668	-	24,138	(2,308,018)	636,119,788

Notes to the consolidated financial statements (continued)

4 Transitional impact (continued)

	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount AED'000	Reclassification to other category AED'000	Re-measurements AED'000	Impact of ECL AED'000	IFRS 9 carrying amount AED'000
Financial liability							
Due to banks and financial institutions	Amortised cost	Amortised cost	30,576,336	-	-	-	30,576,336
Repurchase agreements	Amortised cost	Amortised cost	37,674,016	-	-	-	37,674,016
Commercial paper	Amortised cost	Amortised cost	24,124,097	-	-	-	24,124,097
Derivative financial instruments	FVTPL	FVTPL	14,941,331	-	-	-	14,941,331
Customer accounts and other deposits	Amortised cost	Amortised cost	395,843,664	-	-	-	395,843,664
Term borrowings	Amortised cost / FVTPL	Amortised cost / FVTPL	42,145,718	-	-	-	42,145,718
Subordinated notes	Amortised cost	Amortised cost	420,381	-	-	-	420,381
Other liabilities ¹	Amortised cost	Amortised cost	21,033,339	-	-	741,459	21,774,798
Total Financial Liabilities			566,758,882	-	-	741,459	567,500,341

¹Includes ECL for unfunded exposures

Notes to the consolidated financial statements *(continued)*

5 Financial risk management

Introduction and overview

Risk management framework

The primary objective of the Group is to manage risk and provide returns to the shareholders in line with the accepted risk profile. In the course of doing its regular business activities, the Group gets exposed to multiple risks notably credit risk, market risk, liquidity and funding risk, interest rate risk, operational risk and other risks like compliance risk, strategic risk, reputation risk, information security risk and business continuity. A well-established risk governance and ownership structure ensures oversight and accountability of the effective management of risk at the Group. The Risk management tone is set right at the top from the Board of Directors (“BOD”) and gets implemented through a well-defined risk management structure and framework.

Composition of Board

The Board of Directors (“BOD”) is responsible for the overall direction, supervision and control of the Group. The day-to-day management of the Group is conducted by the BOD committees, and the Group Chief Executive Officer (“GCEO”). The BOD has overall responsibility for the Group including approving and overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values within the agreed framework in accordance with relevant statutory and regulatory structures. The BOD currently comprises nine members. Each Director holds his position for three years, which may then be renewed for a further three year term. The Board of Directors of the Bank’s subsidiaries has the same fiduciary responsibilities towards their respective entities as the Group’s Directors have towards the Bank.

Corporate Governance Framework

The Group has a comprehensive corporate governance framework that puts in place rules, processes and policies through which BOD and Senior Management manages the Group. The BOD drives the implementation of the corporate governance standards and in accordance with its charter had oversight responsibility for the Group’s corporate governance framework. The Group’s corporate governance standards bind its signatories to the highest standards of professionalism and due diligence in the performance of their duties. The Group Chief Risk Officer (“GCRO”) is the custodian of the Corporate Framework document.

Risk Management Structure

The BOD approves risk management plans for the Bank, its subsidiaries, its associates and international offices including representative offices and overseas branches. Under authority delegated by the BOD, the Board Risk and Compliance Committee (“BRCC”) through its separately convened risk management meetings formulates high-level enterprise risk management policy, exercises delegated risk authorities and oversees the implementation of risk management framework and controls. The GCRO functionally reports to this committee.

Board Level Committees within the Group

Board Management Committee (“BMC”)

BMC comprises three members of the BOD and the CEO. BMC oversees execution of the Group’s business plan as per the strategy approved by the Board and oversees and reviews material aspects of the business of the Group. The Committee meets quarterly or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in the BMC charter.

Board Risk and Compliance Committee (“BRCC”)

The BRCC provides oversight and advice to the Group Board in relation to current and potential future risk and compliance exposures of the FAB Group. It also considers and helps direct future risk strategy, including determination of risk appetite and tolerance as well as promote a risk and compliance awareness culture among the Group. The Committee meets quarterly or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in the BRCC’s charter.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk management framework *(continued)*

Board Level Committees within the Group *(continued)*

Board Audit Committee (“BAC”)

BAC comprises three members of the BOD and the GCEO. BAC ensures oversight of the effectiveness of the internal control systems and the quality and integrity of financial statements and financial reporting. In addition, it reviews, approves and oversees the internal and external audit programs and ensures coordination between internal and external auditors. The Group Chief Audit Officer (“GCAO”) provides reports to the Committee on Internal controls. The Committee meets quarterly or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in the Board Audit Committee’s charter.

Remuneration and Nomination Committee (“REMCO”)

REMCO comprises three members of the BOD and the CEO. REMCO recommends and oversees the appointment and termination of Directors and succession planning for the Group Executive Committee members. This includes an assessment of the skills, knowledge and expertise needed to ensure they are positioned to discharge their responsibilities in the interests of the shareholders and FAB Group. The Committee also reviews and recommends to the Boards FAB’s reward framework, approves and oversees rewards design and ensures it is appropriate and consistent with the Group’s culture, values, business performance and risk strategy. The Committee meets at least twice a year or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in REMCO’s charter.

Management Level Committees within the Group

Management committees are responsible for implementing the Risk management framework. The major functions of the ten management committees are listed below:

Group Executive Committee (“EXCO”)

EXCO is the most senior management committee operating under a delegated authority from the Board. . It is responsible for identifying matters required or appropriate for escalation to the Group Board or Board Committees. The Group EXCO also supports the GCEO to determine and implement the Bank’s strategy as approved by the FAB Board.

The key responsibilities of the Committee include decisions on the Bank’s strategy, annual budgets, capital management, risk management and FAB’s more material policies and procedures. The Group EXCO may delegate certain authorities and powers to management committees and individuals, but the Group EXCO reserves the authority to deal with strategy, annual budget and structure; financial reporting and controls; capital management; risk and internal control; contracts; corporate governance matters; executive remuneration and human resources policies, and group policies generally; general meeting of shareholders and communication and any other matters in its discretion. EXCO consists of the executive management team and is chaired by the Group Chief Executive Officer. The composition, guiding principles and detailed roles and responsibilities of EXCO are covered in the EXCO’s charter.

Corporate & Investment Banking Credit Committee (“CIBCC”)

CIBCC assists EXCO in the development and implementation of the Group’s Corporate & Investment Banking business credit strategy and policies and procedures. The purpose of the CIBCC is to oversee the credit and lending strategies and objectives of the Group, including identifying and managing the Group’s Corporate & Investment Banking credit exposures and its response to trends affecting those exposures. It also assists in reviewing the quality and performance of the Group’s credit portfolio; and overseeing the Corporate & Investment Banking credit function of the Group, including reviewing internal credit risk and credit policies and establishing portfolio limits. The composition, guiding principles and detailed roles and responsibilities of CIBCC are covered in the CIBCC’s charter.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

Risk management framework (continued)

Management Level Committees within the Group (continued)

Personal Banking Credit Committee ("PBCC")

PBCC assists EXCO in the development and implementation of credit strategy, for personal banking businesses. The Committee has been set up in order to ensure a holistic overview of the business strategies across the Personal Banking businesses of the Group. The Committee oversees the credit and lending strategies, Identifies and manages business credit strategy and strategic response to trends affecting the businesses; reviews the quality and performance of the portfolio; and oversees the credit risk management function including establishing product portfolio limits. The composition, guiding principles and detailed roles and responsibilities of PBCC are covered in the PBCC's Charter.

Group Risk Committee ("GRC"):

Oversees the Group-wide risk strategy and exposures to enable integrated risk management in an effective manner. Defines, develops and periodically monitors the Group's risk appetite along with its related methodology, parameters, targets, and tolerances taking into account the Bank's strategy and business planning. The GRC will report relevant matters to the Group EXCO, and as appropriate the BRCC, advising and informing them as required on the Group's risk appetite and framework.

Group Compliance Committee ("GCC"):

Assists the Board Risk & Compliance Committee ("BRCC") in fulfilling its objective of overseeing the Bank's regulatory responsibilities as well as ensuring the Bank's compliance with the applicable laws and regulations issued by various regulatory authorities across the Group. The Committee also oversees that the relevant policies and procedures, including, but not limited to the Group Code of Ethics are complied with across the Group.

Group Asset Liability Management Committee ("GALCO")

GALCO assists the BOD and Board Committees in fulfilling its responsibility to oversee the Group's asset and liability management (ALM) related responsibilities. GALCO is directly accountable to the BRCC for ensuring that the risks within the Group Asset and Liability position are prudently managed by way of strong Group policy and procedures and an appropriate risk framework. The objective of GALCO is balance sheet management design and strategy and constant oversight of interest rate risk and liquidity risk with the primary goal of achieving optimal return while ensuring adequate levels of liquidity within an effective risk control framework. The composition, guiding principles and detailed roles and responsibilities of GALCO are covered in the GALCO's charter.

Human Resources Steering Committee ("HRSC")

HRSC assists the EXCO and the REMCO in fulfilling its duties with regard to implementing strategic as well as operational HR initiatives in order to deliver long term value. The Committee is formed to provide a forum to discuss and approve HR initiatives and policies to ensure that the needs of the organization from an employee perspective are considered and changes, as necessary, are approved or are submitted for approval to the relevant governance body. The Committee is the formal sponsor of all material HR initiatives across FAB in line with its Employee Value Proposition ("EVP"). The composition, guiding principles and detailed roles and responsibilities of HRSC are covered in the HRSC's charter.

Integration Steering Committee ("ISC")

ISC has been appointed under a delegated authority from EXCO to provide direction on all matters relating to the post-Merger integration process. It is the main approving authority for all post-Merger integration policies and procedures and, as such, all lower-level integration committees report to the Group ISC. The Group ISC meets fortnightly and is chaired by the GCEO. The composition, guiding principles and detailed roles and responsibilities of ISC are covered in the ISC's charter.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

Risk management framework (continued)

Management Level Committees within the Group (continued)

Group Operational Risk Committee (“GORC”)

Assists the Group Risk Committee in fulfilling its objective of overseeing the Bank’s operational risk management, business continuity and information security responsibilities. Responsibility areas of the GORC include identifying, measuring, managing, reporting of the Bank’s operational risk profile, ratifying information security policy and procedures, integrated business continuity management policy and business recovery strategy of the Bank.

Information Security Committee (“ISC”)

Assists the Board Risk and Compliance Committee and the Group Risk Committee in overseeing, reviewing and taking decisions on the implementation of FAB’s security controls to ensure that information assets of the Bank are adequately protected. It also serves as an independent and objective governance forum which ensures the adequacy and effectiveness of the Bank’s information security framework.

Group Risk Management and Compliance Function

The Group has a centralized Risk Management, Compliance & Legal functions led by the GCRO. The Risk Management function comprises Enterprise Risk, Credit Risk, Operational and Fraud Risk Management Unit, Market & Liquidity Risk Management Unit, Information Security and Business Continuity Management unit. The Compliance function comprises Regulatory compliance, Financial Crime Compliance, Business Compliance units. The Legal function supports business & enabling functions through dedicated units and also includes the Group corporate governance function.

Enterprise Risk Management Policy Framework

FAB’s Enterprise Risk Management Policy (ERMP) framework aims to accomplish its core values and purpose of being a world class organization maximizing its risk adjusted returns for all stakeholders by establishing an enterprise wide risk management framework across FAB including local and international branches, subsidiaries, associates and foreign representative offices. Core objective of ERMP is to provide a reasonable degree of assurance to the BOD that the risks threatening FAB’s achievement of its core purpose are being identified, measured, monitored and controlled through an effective integrated risk management system. The ERMP framework consists of specific policy documents covering all material risks across FAB; which include ERM policy, Risk Appetite Policy, Corporate and Investment banking credit policy, Personal banking credit policy, Market risk Master policy and its associated operating policies, Liquidity risk policy, Interest rate risk policy, Operational risk policy, Fraud risk policy, Compliance risk policy, AML and Sanctions Policy, IT and Information Security risk policy, BCM Policy, Internal Capital Adequacy Assessment Process (“ICAAP”) policy, New Products Approval policy, Model governance policy, etc. In addition to these risk management policies, the Group has also put in place detailed operational policies, procedures and programs wherever needed. Other relevant risks such as reputation risk and strategy risk are covered under the ERM policy.

FAB manages risks using three lines of defense comprising of business units, control units and Internal Audit. Business units, as the first line of defense, identify and manage risk in their day-to-day activities by ensuring that activities are within the Group’s risk appetite and are in compliance with all relevant internal policies and processes. Group Credit, Group Risk and Legal & Compliance division, as the second line of defense, establishes risk controls comprising of policies and processes while also providing oversight and independent challenge to the first line of defense. The Group Chief Risk Officer (“GCRO”) has a direct reporting line to the BRCC to ensure the independence of Group Risk from business. Internal audit, as the third line of defense, provides assurance to management and the Board of the effectiveness of risk management practices employed by the first two lines of defense. The Group Chief Audit Officer has a direct reporting line to the Board Audit Committee.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk Management Framework *(continued)*

(a) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's loans and advances, due from banks and financial institutions, reverse repurchase agreements and non-trading debt investments, derivative financial instruments and certain other assets.

Management of credit risk

Credit risk identification and assessment at FAB Group is carried out through a comprehensive mechanism comprising three levels of defense. The first level of defense lies with the business units and is responsible for maintaining a sound credit quality of Assets in line with the approved business strategy and credit risk appetite. The second level of defense is with the Group Credit Unit that assesses the risk on a customer & facility level and ensures proper documentation of customer, facility and security documents along with Group Risk management unit that assesses credit risk on a portfolio basis and maintains credit risk policies and credit risk rating models up to date. Internal Audit acts as a third level of defense with regular reviews of credit analysis and the risk functions to check the compliance with policies and procedures of the Group. The unit also reviews the policy documents on a regular basis.

As a part of credit risk monitoring and control framework, regular risk monitoring at both individual and portfolio levels is carried out along several parameters which include credit quality, provisioning levels, exposure limits across several dimensions, financial and operating performance, account conduct, end use of funds, adequacy of credit risk mitigants, adherence to financial and non-financial covenants, recovery performance, rating system performance among others.

The Group has set up a framework for credit risk mitigation as a means towards reducing credit risk in an exposure, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees/ insurance. The types of Credit Risk Mitigation (CRM) include netting agreements, collaterals, guarantees, credit derivatives, Stand by Letter of Credit (SBLC) and Comfort Letters. The Group ensures that all documentation used in collateralized transactions and for documenting on and off-balance sheet netting, guarantees, credit derivatives and collateral is binding on all parties and is legally enforceable in all relevant jurisdictions. The Group also ensures that all the documents are reviewed by appropriate authority and have appropriate legal opinions to verify and ensure its enforceability. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

Risk Management Framework (continued)

(a) Credit risk (continued)

Credit quality analysis (continued)

As of 31 December 2018	Stage 1		Stage 2		Stage 3		Purchased or originally credit impaired ⁴		Total	
	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision
Balances with central banks	176,630,171	26,142	4,838,929	230,651	-	-	-	-	181,469,100	256,793
Due from banks and financial institutions	18,540,275	19,658	685,973	30,498	-	-	-	-	19,226,248	50,156
Reverse repurchase agreements	19,048,807	15,356	-	-	-	-	-	-	19,048,807	15,356
Loans and advances ¹	336,129,675	1,507,539	17,228,374	4,063,427	8,894,605	4,682,146	4,803,837	1,630,136	367,056,491	11,883,248
Non-trading investments										
Amortised cost	5,630,295	2,736	-	-	-	-	-	-	5,630,295	2,736
FVOCI Debt ²	84,319,951	42,586	24,658	1,498	-	-	-	-	84,344,609	44,084
Other assets ³	12,110,664	102,321	425,367	1,568	-	-	-	-	12,536,031	103,889
Unfunded exposure	205,202,317	121,991	5,104,229	153,389	488,030	137,568	-	-	210,794,576	412,948
	857,612,155	1,838,329	28,307,530	4,481,031	9,382,635	4,819,714	4,803,837	1,630,136	900,106,157	12,769,210

¹The exposure represents gross loans and advances.

²The provision against financial instruments classified as FVOCI is netted off against the fair value reserve.

³On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.

⁴The Group, from an internal credit quality point of view, considers AED 4,572 million as par to non-performing loans.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

Risk Management Framework (continued)

(a) Credit risk (continued)

Credit quality analysis (continued)

Opening balance as at 1 January 2018	Stage 1		Stage 2		Stage 3		Purchased or originally credit impaired ⁴		Total	
	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision
Balances with central banks	130,830,533	23,757	5,502,359	255,222	-	-	-	-	136,332,892	278,979
Due from banks and financial institutions	13,350,927	6,716	478,563	21,080	-	-	-	-	13,829,490	27,796
Reverse repurchase agreements	21,346,974	5,895	-	-	-	-	-	-	21,346,974	5,895
Loans and advances ¹	310,729,079	1,849,288	21,602,034	5,734,822	7,023,405	4,643,719	5,734,540	2,383,559	345,089,058	14,611,388
Non-trading investments										
Amortised cost	6,086,877	5,123	115,000	58,814	-	-	-	-	6,201,877	63,937
FVOCI Debt ²	79,562,572	47,067	26,535	2,046	-	-	-	-	79,589,107	49,113
Other assets ³	10,932,092	49,019	331,545	431	113	48	-	-	11,263,750	49,498
Unfunded exposure	188,454,138	206,352	6,599,105	333,156	368,148	201,951	-	-	195,421,391	741,459
	<u>761,293,192</u>	<u>2,193,217</u>	<u>34,655,141</u>	<u>6,405,571</u>	<u>7,391,666</u>	<u>4,845,718</u>	<u>5,734,540</u>	<u>2,383,559</u>	<u>809,074,539</u>	<u>15,828,065</u>

¹The exposure represents gross loans and advances.

²The provision against financial instruments classified as FVOCI is netted off against the fair value reserve.

³On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.

⁴The Group, from an internal credit quality point of view, considers AED 5,469 million as par to non-performing loans.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

Risk Management Framework (continued)

(a) Credit risk (continued)

Credit quality analysis (continued)

Classification of investments as per their external ratings:

	Non-trading investments		Investments at fair value through profit or loss	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
AAA	14,156,082	13,736,429	16,562	93,281
AA to A	58,732,451	55,568,380	7,327,891	12,451,229
BBB to B	14,650,910	14,561,101	3,981,306	5,924,467
CCC and below	20,780	26,535	21	27
Unrated	2,876,087	4,565,265	3,295,130	851,760
	90,436,310	88,457,710	14,620,910	19,320,764

Unrated investments primarily consist of investments in Private equity funds and investments in equity which doesn't carry credit risk. Investments at fair value through profit or loss are neither past due nor impaired.

Collateral held and other credit enhancements

The Group has set up a framework for credit risk mitigation as a means towards reducing credit risk in an exposure, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees/ insurance. The types of Credit Risk Mitigation ("CRM") include netting agreements, collaterals, guarantees, credit derivatives, Stand by Letter of Credit ("SBLC") and Comfort Letters. The Group ensures that all documentation used in collateralized transactions and for documenting on and off-balance sheet netting, guarantees, credit derivatives and collateral is binding on all parties and is legally enforceable in all relevant jurisdictions. The Group also ensures that all the documents are reviewed by the appropriate authority and have appropriate legal opinions to verify and ensure its enforceability. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Group holds collateral and other credit enhancements against certain of its credit exposures. An estimate of the collateral coverage (after application of haircut) against credit-impaired loans and advances is shown below:

	2018 AED'000	2017 AED'000
Collateral value cover		
0 – 50%	8,182,041	6,910,733
51 – 100%	3,930,396	3,955,521
Above 100%	1,353,911	1,625,901
Total Gross credit impaired loans	13,466,348	12,492,155

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk Management Framework *(continued)*

(a) Credit risk *(continued)*

Collateral held and other credit enhancements *(continued)*

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group does not generally use the non-cash collateral for its own operations.

While the Group might not have repossessed significant amount of collateral in 2017 and 2018, maintaining repossession rights assist the Group in the restructuring and settlement of credit-impaired loans.

Derivatives, reverse sale-and-repurchase agreements and securities borrowing

The Group mitigates the credit risk of derivatives, reverse sale-and-repurchase agreements and securities lending by entering into master netting agreements and holding collateral in the form of cash and marketable securities.

Derivative transactions are transacted on exchanges, with clearing counterparties ("CCPs") or entered into under International Swaps and Derivatives Association (ISDA) master agreements. In general, under these agreements, in certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement with the counterparty are terminated, the termination value is assessed as per the jurisdiction netting rules and the amount (due or payable) in settlement with the counterparty. The Group usually executes a credit support annex in conjunction with the ISDA agreement, which requires the Group and its counterparties to post collateral to mitigate counterparty credit risk. Collateral is also posted daily in respect of derivatives transacted on exchanges and with CCPs.

Loans and advances to customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Group's focus on corporate customers' creditworthiness, the Group does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Group obtains appraisals of collateral because it provides input into determining the management credit risk actions.

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy 3(c)(vii).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk Management Framework *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Significant increase in credit risk *(continued)*

For retail portfolio historical payment behavior of the exposure is evaluated to determine significant increase in credit risk.

In addition to the quantitative test based on movement of PD, the Group also applies experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results.

Credit risk grades

The Group allocates each Corporate exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Determining whether credit risk has increased significantly

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between corporate and retail.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on expert judgment and relevant historical experiences.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

Definition of default

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);
- For retail, a facility or any material credit obligation to the Group is more than 90 days past due;
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

Risk management framework (continued)

(a) Credit risk (continued)

Amounts arising from ECL (continued)

Definition of default (continued)

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes (see 5(e)).

Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as at 31 December 2018 included the following key indicators for the years ending 31 December 2019 to 2023.

Region	Macro Variable ^{1,2}	Scenario	2019	2020	2021	2022	2023
Gulf	Oil Price	Base	-2.16%	-7.01%	-2.74%	0.88%	1.23%
		Upside	20.34%	-2.20%	-3.88%	-1.03%	-0.41%
		Downside	-28.69%	-12.55%	4.47%	10.23%	6.98%
	UAE Equity Index	Base	22.77%	8.80%	6.80%	6.55%	7.56%
		Upside	28.97%	10.47%	15.35%	8.85%	8.48%
		Downside	6.58%	13.33%	1.52%	1.27%	3.75%
UK	UK Equity Index	Base	-8.82%	-2.63%	9.10%	5.14%	3.21%
		Upside	-3.63%	0.67%	5.35%	3.04%	2.87%
		Downside	-23.43%	2.35%	12.52%	9.01%	4.76%
	UK GDP	Base	1.54%	1.43%	1.67%	1.78%	1.74%
		Upside	3.10%	2.95%	1.95%	1.63%	1.53%
		Downside	-1.06%	-0.54%	1.77%	2.37%	1.96%

(1) Represents the average annualized increase / decrease over the period.

(2) There are additional macro variables factors used of other regions relevant to their market.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(c)(iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

Risk management framework (continued)

(a) Credit risk (continued)

Amounts arising from ECL (continued)

Modified financial assets (continued)

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(c)(vii)). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made material concessions that it would not otherwise consider. Once a loan is restructured, it remains in this category for a minimum period of twelve months, in order to establish satisfactory track record of performance under the restructuring agreement. The Group determines the twelve-month period to commence from the date of signing of the agreement for restructuring. As at the reporting date, the Group has renegotiated the following exposures:

	2018 AED'000	2017 AED'000
Loans with renegotiated terms		
Gross carrying amount	7,322,938	6,308,292
Impaired amount	2,719,912	1,815,476
Allowance for impairment (ECL / Specific Provision)	3,008,807	705,482

Measurement of ECL

The key inputs into the measurement of ECL are:

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

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

Risk management framework (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

The Lifetime PDs are determined based on maturity profile. The maturity profile looks at how defaults develop on a portfolio throughout the remaining life of the loans. The maturity profile is based on historical observed data.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD term structure based on current collateral, counterparty industry, country of risk and recovery costs that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios incorporating the impact of change in oil prices, equity index and other parameters.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using statistical techniques.

As described above, and subject to using a maximum of a 12-month for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

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

- instrument type;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

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

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under IAS 39.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

Risk management framework (continued)

(a) Credit risk (continued)

Amounts arising from ECL (continued)

Loss allowance (continued)

	Stage 1 ¹ AED'000	Stage 2 AED'000	Stage 3 AED'000	Purchased credit impaired AED'000	2018 Total AED'000	2017 AED'000
Beginning of the period	8,146,848	-	4,581,263	-	12,728,111	4,468,060
Increase due to acquisition and other adjustment	-	-	-	-	-	8,919,060
Impact of accounting policy alignment	-	-	-	-	-	325,260
Impact due to IFRS 9 adoption	(5,953,631)	6,405,571	264,455	2,383,559	3,099,954	-
	2,193,217	6,405,571	4,845,718	2,383,559	15,828,065	13,712,380
Transfers:						
Transfer from Stage 1 to Stage 2	(129,413)	129,413	-	-	-	-
Transfer from Stage 1 to Stage 3	(152,427)	-	152,427	-	-	-
Transfer from Stage 2 to Stage 1	141,307	(141,307)	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(2,535,498)	2,535,498	-	-	-
Transfer from Stage 3 to Stage 2	-	177,075	(177,075)	-	-	-
Transfer from Stage 3 to Stage 1	10,423	-	(10,423)	-	-	-
	(130,110)	(2,370,317)	2,500,427	-	-	-
Impact of change in provision	(188,697)	657,932	1,708,792	(364,204)	1,813,823	2,362,297
Write-offs and other adjustments	(36,081)	(212,155)	(4,235,222)	(389,220)	(4,872,678)	(3,346,566)
	1,838,329	4,481,031	4,819,715	1,630,135	12,769,210	12,728,111

¹On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

Risk management framework (continued)

(a) Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Note	Gross maximum exposure 2018 AED'000	Gross maximum exposure 2017 AED'000
Balances with Central Bank	8	181,469,100	136,332,892
Investments at fair value through profit or loss	9	11,679,960	18,761,276
Due from banks and financial institutions	10	19,226,248	13,829,490
Reverse repurchase agreements	11	19,048,807	21,346,974
Loans and advances	12	367,056,491	345,089,058
Non-trading investments	13	90,371,169	86,057,723
Other assets		20,484,753	15,542,116
Total		709,336,528	636,959,529
Derivatives held for trading	39	11,258,237	10,874,605
Derivatives held for hedging	39	1,825,955	524,827
Total		13,084,192	11,399,432
Contingent liabilities	38	165,134,974	152,437,597
Commitment	38	45,659,602	42,983,794
Total		210,794,576	195,421,391
Total credit risk exposure		933,215,296	843,780,352

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

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

(a) Credit risk (continued)

The Group monitors concentrations of credit risk by industry sector, counterparty and geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

Concentrations by industry sector

	Loans and advances		Investments		Reverse repurchase agreements		Undrawn loan Commitments	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Agriculture	313,175	435,808	-	-	-	-	-	-
Energy	35,074,356	24,225,459	14,134,203	13,169,794	-	-	7,718,901	7,510,896
Manufacturing	23,949,920	20,178,714	271,889	392,044	-	-	5,704,950	4,653,908
Construction	8,727,362	12,034,840	151,922	72,941	-	-	834,848	952,194
Real estate	97,328,365	90,530,386	1,484,402	750,167	-	-	7,514,438	13,361,067
Trading	22,882,591	22,877,522	88,183	126,687	-	-	2,686,769	2,170,578
Transport and communication	25,337,423	26,421,661	4,738,702	5,077,269	-	-	3,702,437	5,196,425
Banks	28,472,001	21,099,155	24,343,036	26,090,385	17,467,876	17,970,093	-	667,569
Other financial institutions	28,844,388	26,641,128	15,386,871	17,883,900	1,580,931	3,376,881	3,718,900	2,709,145
Services	22,351,610	24,228,514	140,337	485,699	-	-	6,187,837	2,185,704
Government	5,780,419	5,006,234	44,317,675	43,354,376	-	-	6,610,027	1,159,921
Personal – Loans & Credit cards	55,661,533	58,363,714	-	-	-	-	980,495	1,754,283
Personal - Retail Mortgage	11,890,287	12,857,601	-	-	-	-	-	-
Others	443,061	188,322	-	375,212	-	-	-	662,104
	367,056,491	345,089,058	105,057,220	107,778,474	19,048,807	21,346,974	45,659,602	42,983,794

The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any. Included within investments are equity instruments where the credit risk is not applicable.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

(a) Credit risk (continued)

Concentration by location:

	UAE AED'000	Europe AED'000	Arab countries AED'000	Americas AED'000	Asia AED'000	Others AED'000	Total AED'000
<i>As at 31 Dec 2018</i>							
Cash and balances with central banks	47,026,895	72,551,134	6,508,746	57,009,376	69,369	-	183,165,520
Investments at fair value through profit or loss	6,769,352	1,768,902	2,606,908	1,234,093	1,943,808	297,847	14,620,910
Due from banks and financial institutions	1,498,500	8,045,846	3,931,969	4,762,883	430,776	556,274	19,226,248
Reverse repurchase agreements	3,443,738	9,302,435	5,604,980	-	146,704	550,950	19,048,807
Derivative financial instruments	1,726,108	8,975,904	962,168	115,023	1,302,345	2,644	13,084,192
Loans and advances	230,883,881	40,954,112	29,518,809	29,948,854	31,483,051	4,267,784	367,056,491
Non trading investments	31,920,824	17,602,295	15,668,070	10,700,661	13,689,257	855,203	90,436,310
	<u>323,269,298</u>	<u>159,200,628</u>	<u>64,801,650</u>	<u>103,770,890</u>	<u>49,065,310</u>	<u>6,530,702</u>	<u>706,638,478</u>
<i>As at 31 Dec 2017</i>							
Cash and balances with central banks	41,841,692	57,579,526	7,174,336	31,450,850	64,650	-	138,111,054
Investments at fair value through profit or loss	6,357,372	2,007,556	4,327,245	163,758	6,359,273	105,560	19,320,764
Due from banks and financial institutions	159,496	10,394,394	1,630,653	765,592	805,596	73,759	13,829,490
Reverse repurchase agreements	2,631,845	14,204,929	3,198,329	143,116	801,455	367,300	21,346,974
Derivative financial instruments	2,099,778	7,527,951	1,060,508	59,158	616,860	35,177	11,399,432
Loans and advances	225,405,727	41,443,951	26,839,708	26,629,511	21,368,849	3,401,312	345,089,058
Non trading investments	32,994,218	16,035,290	15,681,376	11,951,579	11,084,991	710,256	88,457,710
	<u>311,490,128</u>	<u>149,193,597</u>	<u>59,912,155</u>	<u>71,163,564</u>	<u>41,101,674</u>	<u>4,693,364</u>	<u>637,554,482</u>

Concentration by location for investments is measured based on the location of the issuer of the security. Concentration by location for all others is measured based on the residential status of the borrower. The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any. Concentration by location for undrawn commitments is stated in note 38 of these consolidated financial statements.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

(a) Credit risk (continued)

Classification of investments as per their counterparties:

	Non-trading investments		Investments at fair value through profit or loss	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Government sector	41,637,190	38,956,577	2,680,485	4,397,799
Supranational	2,504,208	3,180,983	810,394	915,279
Public Sector	22,515,092	23,521,158	1,251,552	2,287,703
Banking sector	17,552,792	15,019,621	6,790,244	11,070,764
Corporate / private sector	6,227,028	7,779,371	3,088,235	649,219
	90,436,310	88,457,710	14,620,910	19,320,764
Less: allowance for impairment (expected credit loss) on amortised cost securities	(2,736)		-	
	90,433,574	88,457,710	14,620,910	19,320,764

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. Any delay in settlement is rare and monitored.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favourable to the Group. The positive market value is also referred to as the "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a counterparty defaults. The majority of the Group's derivative contracts are entered into with other banks and financial institutions.

(b) Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its financial obligations as and when they fall due or that it can only do so at an excessive cost.

Liquidity risk arises from cash flows generated by assets and liabilities, including derivatives and other off-balance sheet commitments, not being matched in currency, size, and term. FAB ensures that all liabilities can be met as they fall due under both businesses as usual and stress conditions without incurring undue cost.

Management of liquidity risk

The Group has defined the liquidity risk appetite at a level so as to ensure that the Group has a controlled liquidity risk position with adequate cash or cash-equivalents to be able to meet its financial obligations, in all foreseeable circumstances and without incurring substantial additional costs, for a rolling period of three months. The risk appetite is supported by a comprehensive risk management framework that includes Group ALCO approved limits for key funding and liquidity metrics, stress testing and a contingency funding plan.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

Management of liquidity risk *(continued)*

The liquidity risk appetite is also defined at a level to ensure continued compliance with current and proposed liquidity regulation from both domestic and international regulators, and aligned to support the Group's external credit rating objectives.

One of the critical means to measure adequacy of liquidity as per extant global regulation is through Liquidity Coverage Ratio ("LCR"). FAB has been internally reporting Basel III LCR numbers for a considerable period of time, and has invested heavily in ensuring systems and controls framework is in place to comply with all the qualitative and quantitative aspects of Basel III. In addition the Group also ensures that it is compliant with UAE Central Bank liquidity regulation on Eligible Liquid Assets Ratio ("ELAR") at all times.

Liquidity limits are defined at the Group level and are cascaded down throughout the organisation to ensure that the Group complies with the defined Group Liquidity Risk appetite. Similarly International limits are cascaded to ensure compliance with any additional local regulatory requirements on liquidity management.

All liquidity policies and procedures are subject to review and approval by G-ALCO.

Exposure to liquidity risk

The contractual asset and liability maturity mismatch report without considering the Group's retention history is detailed below.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

(b) Liquidity risk (continued)

The maturity profile of the assets and liabilities as at 31 December 2018

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	182,908,727	173,951,213	8,957,514	-	-	-	-
Investments at fair value through profit or loss	14,620,910	3,099,469	3,615,152	3,750,902	620,869	593,569	2,940,949
Due from banks and financial institutions	19,176,092	19,176,092	-	-	-	-	-
Reverse repurchase agreements	19,033,451	7,812,517	9,042,380	342,059	1,836,495	-	-
Derivative financial instruments ¹	13,084,192	1,532,117	1,705,972	2,640,094	2,567,203	4,638,806	-
Loans and advances	353,205,228	58,996,281	49,905,144	68,651,892	68,877,833	106,774,078	-
Non-trading investments	90,433,574	4,001,571	5,936,507	25,316,677	14,378,331	40,339,082	461,406
Investment properties	7,388,493	-	-	-	-	-	7,388,493
Property and equipment	3,991,215	-	-	-	-	-	3,991,215
Intangibles	19,699,711	-	-	-	-	-	19,699,711
Other assets	20,583,602	15,437,701	5,145,901	-	-	-	-
	<u>744,125,195</u>	<u>284,006,961</u>	<u>84,308,570</u>	<u>100,701,624</u>	<u>88,280,731</u>	<u>152,345,535</u>	<u>34,481,774</u>
Liabilities and equity							
Due to banks and financial institutions	40,266,535	37,685,831	2,370,601	210,103	-	-	-
Repurchase agreements	34,769,685	31,628,667	1,304,559	1,836,459	-	-	-
Commercial Paper	18,144,105	17,254,974	889,131	-	-	-	-
Derivative financial instruments ¹	15,219,464	1,600,273	1,653,419	3,369,951	2,573,849	6,021,972	-
Customer accounts and other deposits	465,475,874	417,833,642	36,212,483	9,830,082	1,435,463	164,204	-
Term borrowings	42,268,173	2,945,133	10,352,657	10,245,303	7,479,023	11,246,057	-
Subordinated notes	401,979	-	-	-	-	401,979	-
Other liabilities	25,606,380	19,204,785	6,401,595	-	-	-	-
Equity	101,973,000	-	-	-	-	-	101,973,000
	<u>744,125,195</u>	<u>528,153,305</u>	<u>59,184,445</u>	<u>25,491,898</u>	<u>11,488,335</u>	<u>17,834,212</u>	<u>101,973,000</u>
Undrawn commitments to extend credit	45,659,602	12,887,475	23,726,362	5,524,790	3,122,821	398,154	-
Trade contingencies	165,134,974	75,782,817	19,340,637	27,536,499	15,504,100	26,970,921	-

¹The Group has the option to liquidate the derivatives at any point of time.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

(b) Liquidity risk (continued)

The maturity profile of the assets and liabilities as at 31 December 2017:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	138,111,054	129,444,974	8,666,080	-	-	-	-
Investments at fair value through profit or loss	19,320,764	5,332,119	6,777,244	4,610,671	1,113,740	927,502	559,488
Due from banks and financial institutions	13,829,490	13,827,603	1,887	-	-	-	-
Reverse repurchase agreements	21,346,974	13,396,537	7,950,437	-	-	-	-
Derivative financial instruments ¹	11,399,432	1,821,287	1,456,835	2,248,883	2,428,292	3,444,135	-
Loans and advances	330,465,888	64,252,351	37,974,179	57,478,522	62,089,240	108,671,596	-
Non-trading investments	88,457,710	3,148,594	4,379,228	19,239,841	20,814,826	38,475,234	2,399,987
Investment properties	6,927,692	-	-	-	-	-	6,927,692
Property and equipment	3,535,501	-	-	-	-	-	3,535,501
Intangibles	19,901,374	-	-	-	-	-	19,901,374
Other assets	15,672,416	11,754,312	3,918,104	-	-	-	-
	<u>668,968,295</u>	<u>242,977,777</u>	<u>71,123,994</u>	<u>83,577,917</u>	<u>86,446,098</u>	<u>151,518,467</u>	<u>33,324,042</u>
Liabilities and equity							
Due to banks and financial institutions	30,576,336	25,375,102	4,980,891	220,343	-	-	-
Repurchase agreements	37,674,016	37,055,277	618,739	-	-	-	-
Commercial Paper	24,124,097	19,931,271	4,192,826	-	-	-	-
Derivative financial instruments ¹	14,941,331	2,049,661	1,466,528	2,812,421	2,976,936	5,635,785	-
Customer accounts and other deposits	395,843,664	340,455,577	50,526,974	3,622,508	1,083,074	155,531	-
Term borrowings	42,145,718	3,198,475	2,704,263	22,395,771	3,527,616	10,319,593	-
Subordinated notes	420,381	-	-	-	-	420,381	-
Other liabilities	21,033,339	15,787,256	5,246,083	-	-	-	-
Equity	102,209,413	-	-	-	-	-	102,209,413
	<u>668,968,295</u>	<u>443,852,619</u>	<u>69,736,304</u>	<u>29,051,043</u>	<u>7,587,626</u>	<u>16,531,290</u>	<u>102,209,413</u>
Undrawn commitments to extend credit	42,983,794	7,277,456	10,510,438	11,862,109	8,265,799	5,067,992	-
Trade contingencies	152,437,597	63,054,997	21,827,746	24,919,436	11,349,322	31,286,096	-

¹The Group has the option to liquidate the derivatives at any point of time.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

(b) Liquidity risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

Liabilities	Total AED'000	Gross nominal cash flows AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000
As at 31 December 2018							
Due to banks and financial institutions	40,266,535	40,424,411	37,797,953	2,409,127	217,331	-	-
Repurchase agreements	34,769,685	35,087,490	31,814,905	1,341,723	1,930,862	-	-
Commercial Paper	18,144,105	18,197,308	17,296,217	901,091	-	-	-
Customer accounts and other deposits	465,475,874	468,909,645	418,809,103	37,142,125	11,065,988	1,674,701	217,728
Term borrowings ¹	42,268,173	73,942,394	3,275,459	11,018,473	11,104,186	7,939,714	40,604,562
Subordinated notes	401,979	634,444	-	21,109	42,276	42,276	528,783
	<u>601,326,351</u>	<u>637,195,692</u>	<u>508,993,637</u>	<u>52,833,648</u>	<u>24,360,643</u>	<u>9,656,691</u>	<u>41,351,073</u>
Undrawn commitments to extend credit ²	45,659,602	45,659,602	12,887,475	23,726,362	5,524,790	3,122,821	398,154
Trade contingencies	165,134,974	165,134,974	75,782,817	19,340,637	27,536,499	15,504,100	26,970,921
	<u><u>812,119,529</u></u>	<u><u>892,689,270</u></u>	<u><u>607,663,929</u></u>	<u><u>95,880,652</u></u>	<u><u>35,411,932</u></u>	<u><u>18,283,612</u></u>	<u><u>70,720,148</u></u>
As at 31 December 2017							
Due to banks and financial institutions	30,576,336	30,728,564	25,451,000	5,057,221	-	220,343	-
Repurchase agreements	37,674,016	37,806,050	37,182,253	623,797	-	-	-
Commercial Paper	24,124,097	24,159,369	19,938,576	4,220,793	-	-	-
Customer accounts and other deposits	395,843,664	397,574,720	340,875,246	51,346,184	3,864,764	1,267,010	221,516
Term borrowings ¹	42,145,718	66,550,028	3,490,415	3,332,987	23,580,996	3,858,147	32,287,483
Subordinated notes	420,381	669,344	-	21,496	43,169	43,228	561,451
	<u>530,784,212</u>	<u>557,488,075</u>	<u>426,937,490</u>	<u>64,602,478</u>	<u>27,488,929</u>	<u>5,388,728</u>	<u>33,070,450</u>
Undrawn commitments to extend credit ²	42,983,794	42,983,794	7,277,456	10,510,438	11,862,109	8,265,799	5,067,992
Trade contingencies	152,437,597	152,437,597	63,054,997	21,827,746	24,919,436	11,349,322	31,286,096
	<u><u>726,205,603</u></u>	<u><u>752,913,466</u></u>	<u><u>507,270,943</u></u>	<u><u>96,940,662</u></u>	<u><u>44,270,474</u></u>	<u><u>25,003,849</u></u>	<u><u>43,424,538</u></u>

¹Includes borrowings with callable feature for which the undiscounted contractual cash flows based on final contractual maturity are presented above without consideration of the call option.

²Calculated as per the contractual maturity profile.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

(c) Market risk

Market risk is the risk that the Group's income or capital will fluctuate on account of changes in the value of a financial instrument because of movements in market factors such as interest rates, credit spreads, foreign exchange rates and market prices of equity and commodity.

Management of market risk

The Group separates its exposure to market risk between trading, investment and non-trading portfolios. Trading and investment portfolios are held by the Global Markets Division and are managed on a fair value basis.

Investment Management Committee (IMCO) is responsible for oversight and guidance to Global Markets' trading and investment activities. It ensures effective management of market risks in accordance with the principles laid down in the market risk management policy. IMCO acts a sub-committee of Group Asset and Liabilities (G-ALCO) which has the overall authority and responsibility to manage market risks.

Market Risk Group is responsible for the development and implementation of detailed market risk appetite, risk management methodologies & policies including the control framework that is reviewed by IMCO and submitted to G-ALCO & BRCC for approval.

Exposure to market risks – trading portfolios

The principal analytical tool used to measure and control market risk exposure within the Group's trading portfolios which comprise of investments at fair value through profit or loss and trading derivatives is Value at Risk ("VaR"). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model uses historical simulation based on a 99% confidence level and assumes a 1-day holding period. Using market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

The Group uses VaR limits for foreign exchanges, interest rates, credit spread and equities. The overall structure of Trading VaR limits is subject to review and approval by the IMCO and then ratified at G-ALCO. VaR limits are then cascaded down to trading desks.

VaR is driven by actual historical observations and hence, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation the VaR is further supplemented with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. Moreover the trading activity at Group and desk level is subject to Management Action Triggers ("MAT") that are limits on maximum losses that trigger actions from management. The VaR is as follows:

	2018 AED'000	2018 AED'000	2018 AED'000	2018 AED'000	2017 AED'000
	As at	Average	Max	Min	As at
<u>VaR – Trading Book</u>					
All	14,660	29,581	53,314	14,659	19,018
Interest rate	11,076	24,658	39,250	10,703	13,312
Credit	4,520	4,398	43,353	2,529	4,002
Foreign Exchange	8,062	15,058	34,023	3,376	11,596
Equity	4,023	2,658	4,481	1,524	511
Diversification Benefit	(13,021)	(17,191)	(67,793)	(3,473)	(10,403)

Commodity risk is not currently captured in the VaR model. This is under regular monitoring by the Risk Group through a set of market risk sensitivities, notional limits, and management action triggers.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

(c) Market risk (continued)

Exposure to market risk – banking portfolios

Exposure to Market Risk in the banking portfolios which comprise of non-trading investments, reverse repurchase agreements and certain derivative instruments which are designated as hedging instruments arise primarily from the investment portfolios, interest rate gaps in the banking book, and the Group's overall FX positions.

The principal analytical tool used to measure and control the investment risk exposure within the Group is Value at Risk ("VaR"). The VaR model is the same as the one used for the trading portfolios. The Group uses VaR limits for controlling the overall investment risk, including foreign exchange, interest rate and credit spread. The overall structure of Banking VaR limits is subject to review and approval by IMCO and then ratified by G-ALCO. VaR limits are then cascaded to different Investment desks. The investment risk VaR is as follows:

	2018 AED'000	2018 AED'000	2018 AED'000	2018 AED'000	2017 AED'000
	As at	Average	Max	Min	As at
<u>VaR – Banking Book</u>					
All	112,130	117,966	342,201	99,970	121,157
Interest rate	20,400	29,027	55,747	18,625	55,306
Credit	115,533	120,644	348,588	89,193	128,809
Foreign Exchange	17,078	14,737	32,321	7,446	14,794
Equity	4,147	3,144	4,321	2,237	-
Diversification Benefit	(45,028)	(49,586)	(98,776)	(17,531)	(77,752)

Interest rate risk

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 the related income. The Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities. Overall interest rate risk positions are managed by using derivative instruments to manage overall position arising from the Group's interest bearing financial instruments. The use of derivatives to manage interest rate risk is described in note 39.

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 50 basis points (2017: 50 basis points) and estimates the following impact on the net profit for the year and equity at that date:

	Net profit for the year		Equity	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Fluctuation in yield	±472,083	±521,829	±532,858	±469,464

During the year, the Group has revised its methodology for calculation of interest rate sensitivities. The interest rate sensitivities set out above are based on AED 549,740 million (2017: AED 492,963 million) interest bearing assets and AED 466,091 million (2017: AED 402,248 million) interest bearing liabilities with interest re-pricing less than one year, for assessing the impact on net profit. The impact on equity as given in the table below is based on the sensitivity of interest bearing assets and liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

(c) Market risk (continued)

The Group's interest rate gap and sensitivity position based on contractual cash flow arrangements at 31 December 2018 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000
Assets							
Cash and balances with central banks	182,908,727	145,024,919	8,957,514	-	-	-	28,926,294
Investments at fair value through profit or loss	14,620,910	7,792,279	2,282,820	1,608,098	383,758	503,270	2,050,685
Due from banks and financial institutions	19,176,092	8,597,754	-	-	-	-	10,578,338
Reverse repurchase agreements	19,033,451	7,444,973	9,042,380	342,303	2,203,795	-	-
Derivative financial instruments	13,084,192	13,084,192	-	-	-	-	-
Loans and advances	353,205,228	270,332,727	56,660,483	11,382,438	3,813,934	11,015,646	-
Non-trading investments	90,433,574	7,437,555	6,091,043	24,439,299	12,380,920	39,278,553	806,204
Investment properties	7,388,493	-	-	-	-	-	7,388,493
Intangible assets	19,699,711	-	-	-	-	-	19,699,711
Property and equipment	3,991,215	-	-	-	-	-	3,991,215
Other assets	20,583,602	4,476,542	2,514,976	432,497	351,565	1,260,218	11,547,804
	<u>744,125,195</u>	<u>464,190,941</u>	<u>85,549,216</u>	<u>38,204,635</u>	<u>19,133,972</u>	<u>52,057,687</u>	<u>84,988,744</u>
Liabilities and equity							
Due to banks and financial institutions	40,266,535	29,247,739	2,371,155	210,965	-	-	8,436,676
Repurchase agreements	34,769,685	31,628,631	1,304,559	1,836,495	-	-	-
Commercial Paper	18,144,105	17,254,973	889,132	-	-	-	-
Derivative financial instruments	15,219,464	15,219,464	-	-	-	-	-
Customer accounts and other deposits	465,475,874	313,310,354	34,859,077	9,396,000	1,115,065	164,204	106,631,174
Term borrowings	42,268,173	10,102,042	4,178,931	8,479,537	7,108,465	12,399,198	-
Other liabilities	25,606,380	3,524,205	2,200,267	204,582	129,606	841,612	18,706,108
Subordinated notes	401,979	-	-	-	-	401,979	-
Equity	101,973,000	-	-	-	-	-	101,973,000
	<u>744,125,195</u>	<u>420,287,408</u>	<u>45,803,121</u>	<u>20,127,579</u>	<u>8,353,136</u>	<u>13,806,993</u>	<u>235,746,958</u>
On statement of financial position gap		43,903,533	39,746,095	18,077,056	10,780,836	38,250,694	(150,758,214)
Off statement of financial position gap		33,378,072	550,348	(3,974,801)	(7,886,524)	(22,067,095)	-
Total interest rate sensitivity gap		<u>77,281,605</u>	<u>40,296,443</u>	<u>14,102,255</u>	<u>2,894,312</u>	<u>16,183,599</u>	<u>(150,758,214)</u>
Cumulative interest rate sensitivity		<u>77,281,605</u>	<u>117,578,048</u>	<u>131,680,303</u>	<u>134,574,615</u>	<u>150,758,214</u>	<u>-</u>

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

(c) Market risk (continued)

The Group's interest rate gap and sensitivity position based on contractual cash flow arrangements at 31 December 2017 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000
Assets							
Cash and balances with central banks	138,111,054	120,755,325	8,666,080	-	-	-	8,689,649
Investments at fair value through profit or loss	19,320,764	8,785,020	5,744,846	2,363,842	1,074,972	792,596	559,488
Due from banks and financial institutions	13,829,490	10,277,717	110,190	-	-	-	3,441,583
Reverse repurchase agreements	21,346,974	13,396,536	7,950,438	-	-	-	-
Derivative financial instruments	11,399,432	-	-	-	-	-	11,399,432
Loans and advances	330,465,888	273,587,719	33,135,204	8,444,686	3,473,496	11,824,783	-
Non-trading investments	88,457,710	6,104,190	4,450,640	18,941,715	18,633,642	37,832,551	2,494,972
Investment properties	6,927,692	-	-	-	-	-	6,927,692
Property and equipment	19,901,374	-	-	-	-	-	19,901,374
Intangibles	3,535,501	-	-	-	-	-	3,535,501
Other assets	15,672,416	-	-	-	-	-	15,672,416
	<u>668,968,295</u>	<u>432,906,507</u>	<u>60,057,398</u>	<u>29,750,243</u>	<u>23,182,110</u>	<u>50,449,930</u>	<u>72,622,107</u>
Liabilities and equity							
Due to banks and financial institutions	30,576,336	22,745,363	4,980,891	220,343	-	-	2,629,739
Repurchase agreements	37,674,016	37,055,277	618,739	-	-	-	-
Commercial Paper	24,124,097	19,931,271	4,192,826	-	-	-	-
Derivative financial instruments	14,941,331	-	-	-	-	-	14,941,331
Customer accounts and other deposits	395,843,664	259,294,389	38,848,293	5,190,391	637,712	155,531	91,717,348
Term borrowings	42,145,718	14,098,549	482,264	14,033,474	3,211,838	10,319,593	-
Other liabilities	21,033,339	-	-	-	-	-	21,033,339
Subordinated notes	420,381	-	-	-	-	420,381	-
Equity	102,209,413	-	-	-	-	-	102,209,413
	<u>668,968,295</u>	<u>353,124,849</u>	<u>49,123,013</u>	<u>19,444,208</u>	<u>3,849,550</u>	<u>10,895,505</u>	<u>232,531,170</u>
On statement of financial position gap		79,781,658	10,934,385	10,306,035	19,332,560	39,554,425	(159,909,063)
Off statement of financial position gap		39,660,765	(11,324,517)	7,497,522	(11,413,602)	(24,420,168)	-
Total interest rate sensitivity gap		<u>119,442,423</u>	<u>(390,132)</u>	<u>17,803,557</u>	<u>7,918,958</u>	<u>15,134,257</u>	<u>(159,909,063)</u>
Cumulative interest rate sensitivity		<u>119,442,423</u>	<u>119,052,291</u>	<u>136,855,848</u>	<u>144,774,806</u>	<u>159,909,063</u>	<u>-</u>

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

(c) Market risk (continued)

Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

Currency	Net spot position	Forward position	Total 2018	Total 2017
	(short)/long AED'000	(short)/long AED'000	(short)/long AED'000	(short)/long AED'000
US Dollar	(22,637,963)	37,768,882	15,130,919	42,193,708
UK Sterling Pound	(13,303,964)	13,402,026	98,062	934,070
Euro	74,814,371	(74,234,636)	579,735	2,534,850
Kuwaiti Dinar	(706,090)	(494,899)	(1,200,989)	(292,450)
Saudi Riyal	(44,050)	(567,539)	(611,589)	(3,691,007)
Japanese Yen	7,094,136	(6,581,217)	512,919	155,720
Swiss Franc	(1,553,053)	1,604,447	51,394	65,707
Qatari Riyal	143,136	(387,050)	(243,914)	156,318
Bahraini Dinar	1,684,447	(2,468,415)	(783,968)	(204,029)
Egyptian Pound	183,525	69,341	252,866	56,477
Jordanian Dinar	531,526	(264,929)	266,597	333,363
Indian Rupees	898,123	(179,599)	718,524	2,395,696
Malaysian Ringgit	(856,618)	595,501	(261,117)	64,986
Libyan Dinar	263,663	-	263,663	323,140
Others	(3,375,951)	3,730,004	354,053	355,596

As AED, SAR, BHD and QAR are pegged against US Dollar, the Group's risk exposure to these currencies is limited to that extent. Exposure to other foreign currencies is insignificant.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2018 and 2017 on its monetary assets, liabilities and net derivatives forward position. The analysis estimates the effect of a reasonably possible movement of AED against other currencies, with all other variables held constant on the consolidated income statement.

Currency	EUR	GBP	JPY	Libyan Dinar
Assumed change in exchange rates	1%	1%	1%	1%
Impact on net income in exchange rate:				
2018 (AED'000)	± 5,840	± 956	± 5,129	± 2,637
2017 (AED'000)	± 25,348	± 9,341	± 1,557	± 3,231

At 31 December 2018 and 2017, the effect of the assumed changes in exchange rates on equity is insignificant.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

(c) Market risk (continued)

Equity price risk

FAB is exposed to equity price risk on equity investments, either through holding of equities of another entity or through equity derivatives such as forward contracts, options or swaps. The fair value of these instruments will fluctuate due changes in the market price of the underlying equity instruments. The Group manages this risk through setting Equity Delta, Vega and Gamma limits. The Group also enforces diversification of investments in terms of geographical distribution and industry concentration.

The following table estimates the sensitivity to a possible change in equity markets on the Group's income statement. The sensitivity of the income statement is the effect of the assumed change in the reference equity benchmark on the fair value of investments carried at fair value through the income statement.

	Assumed level of change %	Impact on net income 2018 AED'000	Impact on net income 2017 AED'000
Investments at fair value through profit or loss			
Reference equity benchmarks:			
Abu Dhabi Securities Exchange Index	5%	1,172	-
Dubai Financial Market Index	5%	41,508	23,747
Net asset value of managed funds	5%	91,366	2,786
Other equity exchanges	5%	13,009	1,079
Unquoted	5%	-	362
		147,055	27,974

The effect on equity as a result of a change in the fair value of equity instruments held as available for sale at 31 December 2018 and 2017, due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Assumed level of change %	Impact on net Income 2018 AED'000	Impact on net Income 2017 AED'000
Non-trading investments (excluding investment in associates and joint ventures)			
Reference equity benchmarks:			
Abu Dhabi Securities Exchange Index	5%	9,719	11,480
Dubai Financial Market Index	5%	618	4,237
Net asset value of managed funds	5%	-	85,763
Other equity exchanges	5%	8,351	6,801
Unquoted	5%	1,126	8,230
		19,814	116,511

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(d) Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed processes, people & systems or from external events.

Operational risks arise across all businesses in the Group. The primary responsibility to ensure that risks are managed and monitored resides with the businesses within the Group. Group's businesses are supported by Embedded risk resources and Group Operational Risk Management as 'second line of defense' to ensure robust risk management.

Further, there are reviews conducted by Group Internal Audit as the 'third line of defense'. The results of internal audit reviews are discussed with the management of the respective divisions and summaries are submitted to the Board Audit Committee.

The Group has an established Operational Risk framework consisting of policies and procedures to identify, assess, monitor, control, report and to manage risks and to notify, identify and rectify incidents. The Operational Risk framework also provides the interrelation with other risk categories. Where appropriate, risk is mitigated by way of insurance.

Typically, Operational Risk events are classified as:

- Internal fraud: Risk of unauthorized activity and fraud perpetrated by employees
- External fraud: Risk of fraud or breach of system security by an external party
- Employee practices & workplace safety: Risk of failures in employee relations, diversity and discrimination, and health and safety risks across the Group
- Damage to physical assets: Risk of impact to the Group due to natural disasters
- Clients, Products & Business Practices: Risk of failing in assessing client suitability, fiduciary responsibilities, improper business practices, flawed products and advisory activities.
- Business Disruption & System failures: Risk of not planning and testing business continuity and disaster recovery for systems
- Execution delivery and process management: Risk of failed transaction execution, customer intake and documentation, vendor management and monitoring and reporting.

The Board has oversight responsibilities for operational risk management across the Group. These responsibilities are delegated and exercised through the Group Risk & Compliance Committee, which is the senior management forum responsible for the oversight of Operational Risk.

Key responsibilities of Operational Risk Committee with regards to Operational risk include to ensure:

- Approval of the Group Operational Risk Management Framework and oversight over its implementation
- Approve the strategy and direction for Operational Risk across the Group.
- Establish an effective Governance structure across the Group

(e) Capital management

CBUAE regulations govern regulatory capital requirements for the Group; in addition the overseas branches and subsidiaries may be directly supervised by their local regulators. The capital management process for the Group is linked to the overall business strategy to ensure that capital is adequate to the level of inherent risk in the business and within the firm's capital risk appetite. The Group conducts capital planning in conjunction with the financial budgeting exercise.

The Board and top management define the long term strategic direction for the Group. This provides the framework for the development of a bottom up plan based on the projections from individual business units. The bottom up plan is an input to the annual budgeting process and is conducted at a business unit and country level. These are consolidated for each business division and finally, for the entire Group. Business units, within each division, develop forecasted balance sheet and P&L statements for the next year, by considering the following key parameters:

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(e) Capital management *(continued)*

- the short term (one year) goals
- risk appetite & strategy
- target growth rates
- target returns

The Group's capital management policies aim to ensure that it has sufficient capital to cover the risks associated with its activities and the allocation of capital across the Group. The assessment of the various risks across the Group and their likely impact is carried out in conjunction with the ICAAP undertaken annually. As part of the ICAAP process, Group Risk function identifies the various risks the Group is exposed to as part of its day-to-day operations. Next, the Group assesses these risks against the existing policies and procedures, frameworks and methodologies, contingency plans and other processes to measure, manage and mitigate the impact of such risks. Finally the Group determines the capital requirements for the material risk exposures.

The key objectives of the Group's capital management process are:

- Maintain sufficient capital to meet minimum capital requirement set by CBUAE.
- Maintain sufficient capital to support Group's Risk Appetite and strategic objectives as per long-term strategic plan.
- Maintain adequate capital to withstand stress scenarios including increased capital requirements determined through ICAAP.
- To support the Group's credit rating.

The Group conducts regular stress test exercises in which the Balance Sheet and Profit or Loss statements are determined for base case and stress scenarios. The risk factors are impacted by the assumptions made for the base and stress scenarios and the corresponding impact on the capital adequacy is determined. The Group uses macroeconomic stress tests in order to project capital need and capital levels under various unfavourable scenarios. The tests are perceived as an important tool in internal capital planning. The stress test result during 2018 shows that the Group has adequate capital even under adverse scenarios.

During the year, CBUAE issued BASEL III Capital supplementary standards and guidance. Based on the guidance, Banks are required to deduct proposed dividend from retained earnings while calculating the Capital Adequacy ratio.

Consequently, the Capital Adequacy ratio as computed below takes into account the impact of proposed dividend.

Notes to the consolidated financial statements (continued)

5 Financial risk management (continued)

(e) Capital management (continued)

	2018 AED'000	2017 AED'000
Tier 1 capital		
Ordinary share capital	10,897,545	10,897,545
Share premium	53,188,043	53,026,643
Retained earnings	16,678,196	18,677,552
Statutory and special reserve	9,192,759	7,081,084
General reserve and share option scheme	495,106	376,265
Fair value reserve	(598,021)	281,345
Non-controlling Interests	361,722	487,015
Less: Proposed dividend	(8,064,183)	(7,628,282)
Eligible Tier 1 capital (a)	<u>82,151,167</u>	<u>83,199,167</u>
Deductions:		
Foreign currency translation reserve	(310,931)	(63,075)
Treasury shares	(25,530)	(42,434)
Deferred tax assets	(72,635)	(36,585)
Goodwill and Intangible assets	(20,606,448)	(20,263,462)
Other deductions	(197,465)	(262,895)
Total deductions	<u>(21,213,009)</u>	<u>(20,668,451)</u>
Less: Transitional Deduction from CET 1 (b)	-	(16,534,761)
	<u>60,938,158</u>	<u>66,664,406</u>
Additional Tier 1		
Tier 1 capital notes	10,754,750	10,754,750
Transitional Deduction from AT1	-	(2,066,845)
Additional Tier 1 (c)	<u>10,754,750</u>	<u>8,687,905</u>
	<u>71,692,908</u>	<u>75,352,311</u>
Tier 2 capital		
Qualifying subordinated liabilities	361,782	420,381
Allowance for collective impairment	5,340,017	5,270,024
Transitional Deduction from AT1	-	(2,066,845)
	<u>5,701,799</u>	<u>3,623,560</u>
Total regulatory capital base	<u>77,394,707</u>	<u>78,975,871</u>
<i>Risk weighted assets:</i>		
Credit risk	427,201,365	421,666,579
Market risk	29,475,312	28,054,810
Operational risk	35,696,011	35,619,434
Risk weighted assets	<u>492,372,688</u>	<u>485,340,823</u>
Ratios with transition impact:		
CET 1 ratio	12.4%	13.7%
Tier 1 capital ratio	14.6%	15.5%
Capital adequacy ratio	15.7%	16.2%

The Group and its overseas branches and subsidiaries have complied with all externally imposed capital requirements for all periods presented.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(f) Country risk

Country risk is the likelihood of economic, social, and political events in a foreign country negatively influencing the willingness or ability of state owned and/or privately owned customers in that country to pay their debts on time.

The Group undertakes a detailed qualitative analysis pertaining to country risk as a part of the business decision process. These factors include economic, social and political stability in each country, the monetary policy, the foreign exchange control measure, the transparency of information, the financial and market structure, banking regulations and supervision, the legal system, and the accounting standards among others. Country risks are monitored and controlled using country limits set by the Group; these limits are in accordance with overall business strategy, capital adequacy and provisions for potential risks, risk rating of each country, acceptable level of risk, and business opportunities in each country.

(g) Strategic risk

Strategic risk refers to the risk of current or prospective impact on the Group's earnings, capital, reputation or standing arising from changes in the environment the Group operates in and from adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to industry, economic or technological changes. It is a function of compatibility of Group's strategic goals, strategies developed to achieve those goals, resources deployed to meet those goals and the quality of implementation.

The Group uses several factors to identify and assess impact of strategic risk on its books, including level of integration of risk management policies and practices in the strategic planning process, aggressiveness of strategic goals and compatibility with developed business strategies, capital support for the strategic initiatives to take care of earnings volatility, effectiveness of communication and consistency of application of strategic goals, objectives, corporate culture, and behaviour throughout the Group.

Strategic risks are monitored and controlled as part of the strategic planning process wherein the Group reviews the progress on strategic initiatives vis-à-vis the plan and considers whether the progress is in line with the plan and the external business environment. The strategic plan is periodically reviewed and updated subject to an approval process which is also a part of the strategic planning process.

(h) Compliance risk

Compliance risk refers to the risk to earnings or capital or reputation or continued business existence arising from violations of or non-conformance with laws, rules, regulations, prescribed practices, or ethical standards.

The Group, on a continuous basis, identifies and assesses such risks inherent in all new and existing "material" products, activities, processes and systems. The assessment includes risks assessment on non-conformance with laws, rules, regulations, prescribed practices, or ethical standards. The Group Risk Management function has a group-wide compliance unit that develops internal controls to manage such risks and it is supported by the Internal Audit and Legal functions.

In order to monitor compliance and anti-money laundering risks, the Group has set in place the due diligence processes, reviews of policies and procedures across the Group, implementation of an integrated compliance and AML system which manages name clearance, transaction monitoring and payment monitoring activities, assessment through compliance check-lists etc.

Compliance risk is largely mitigated by way of focused policies and procedures, extensive checklist based and on-spot due diligence and regular training sessions.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(i) Reputation risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This can be due to external or internal events.

The Group identifies and assesses reputation risk by clearly defining types of risks to be captured, establishing key sources of reputation risk it may be exposed to, based on individual circumstances, describing the risks identified in terms of the nature of risk and the potential consequences that the risks may bring to its reputation. The Group also refers to other relevant information for risk identification purposes. Such information may be sourced from media reports, stakeholder analysis reports, internal audit and compliance reports, management exception reports, or other early warning indicators.

For reputation risks, apart from the regular monitoring of external and internal events that can result in possible reputation risks the Group also has processes to track risks that may affect its reputation. These processes allow the BOD and senior management to take prompt corrective actions to address any anticipated reputation event in advance.

In order to manage reputation risks, the Group has set in place a mechanism that entails drawing up action plans to identify reputation risk events and facilitate subsequent monitoring of the progress made; for those risks that may be very difficult or too costly to eliminate entirely the mechanism requires development of contingency plans as response actions.

6 Use of estimates and judgements

In the process of applying the Group's accounting policies, IFRS require the management to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent and would result in relevant and reliable information. The management, based on guidance in IFRS and the IASB's Framework for the Preparation and Presentation of Financial Statements has made these estimates and judgements. Listed below are those estimates and judgement which could have the most significant effect on the amounts recognised in the consolidated financial statements.

Key sources of estimation uncertainty

(a) 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 the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(b) Impairment charge on financial assets

Applicable from 1 January 2018

Impairment losses are evaluated as described in accounting policy 3(c)(vii).

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

Notes to the consolidated financial statements (continued)

6 Use of estimates and judgements (continued)

(b) Impairment charge on financial assets (continued)

Applicable from 1 January 2018 (continued)

- The Group's internal credit grading model, which assigns PDs to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Prior to 1 January 2018

The Group evaluates impairment on loans and advances and non-trading investments on an ongoing basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognised in the consolidated statement of profit or loss. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgements about counterparty's financial situation and other means of settlement and the net realisable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

It is the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

(c) Collective impairment charge

Prior to 1 January 2018

Collective impairment charge is evaluated as described in accounting policy note 3(c)(vii).

In addition to specific impairment charge against individually impaired assets, the Group also maintains a collective impairment allowance against portfolios of loans and advances with similar economic characteristics which have not been specifically identified as impaired. In assessing the need for collective impairment charge, management considers concentrations, credit quality, portfolio size and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical and current economic conditions.

(d) Impairment charge on property and equipment

Impairment losses are evaluated as described in accounting policy note 3(l)(iii).

In determining the net realisable value, the Group uses the selling prices determined by external independent valuer companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The selling prices are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction.

(e) Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual

Notes to the consolidated financial statements *(continued)*

6 Use of estimates and judgements *(continued)*

(e) Contingent liability arising from litigations *(continued)*

matters is not predictable with assurance.

(f) Share option scheme

The fair value of the share option scheme is determined using the Black-Scholes model. The model inputs comprise of share price, exercise price, share price volatility, contractual life of the option, dividend yield and risk-free interest rate.

(g) Valuation of financial instruments

The valuation techniques of financial instruments may require certain unobservable inputs to be estimated by the management. These are discussed in detail in note 7.

(h) Defined benefit plan

The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for obligations include the discount rate. Any changes in these assumptions would impact the carrying amount of the defined benefit obligation.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of the estimated future cash flows expected to be required to settle the future obligations. In determining the appropriate discount rate, the Group considers interest rate of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have the terms to maturity approximating the terms of related benefit obligation.

Other key assumptions for defined benefit obligations are based in part on current market conditions. Additional information on these assumptions is disclosed in note 24.

Critical accounting judgements in applying the Group's accounting policies include:

(i) Financial asset and liability classification

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances. The classification criteria is mentioned in policy 3(c) (ii).

(j) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging relationship.

(k) Determination of fair value hierarchy of financial instruments

The Group's determination of fair value hierarchy of financial instruments is discussed in note 7.

(l) Structured entities

For all funds managed by the Group, the investors are able to vote by simple majority to remove the Group as fund manager, and the Group's aggregate economic interest in each fund is not material. As a result, the Group has concluded that it acts as an agent for the investors in these funds, and therefore has not consolidated these funds.

Notes to the consolidated financial statements (continued)

6 Use of estimates and judgements (continued)

(m) Operating segments

In preparation of the segment information disclosure, management has made certain assumptions to arrive at the segment reporting. These assumptions would be reassessed by the management on a periodic basis. Operating segments are detailed in note 40.

7 Financial assets and liabilities

(a) Valuation control framework

The Group has an established control framework with respect to the measurement of fair value. This framework includes a Valuation Committee that reports to the Group Risk Committee. The Group also has control functions to support this framework (Product Control, Independent Price Verification, Model Validation and Group Market Risk) that are independent of front office management. Specific controls include:

- Independence in valuation process between risk taking units and control units;
- System for valuations;
- Verification of observable pricing;
- Review and approval process for new models and changes to models;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments.

The fair values of due from banks and financial institutions, reverse repurchase agreement, due to banks and financial institutions, repurchase agreements and Customer accounts and other deposits which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their carrying value.

The Group estimates that the fair value of its loans and advances portfolio is not materially different from its carrying value since the majority of loans and advances carry floating market rates of interest and are frequently re-priced. For loans considered impaired, expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time to collect, the net result of which is not materially different from the carrying value.

(b) Determination of fair values

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

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

Level 2: Valuation techniques based on observable inputs, 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; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices of similar instruments after making adjustments based on unobservable inputs that are necessary to reflect fair value of the instrument.

Notes to the consolidated financial statements *(continued)*

7 Financial assets and liabilities *(continued)*

(c) Valuation techniques

All financial assets and liabilities are measured at amortised cost except for derivatives, investment at fair value through profit or loss and available-for-sale investments which are measured at fair value by reference to published price quotations in an active market or from prices quoted by counterparties or through use of valuation techniques.

Fair value of financial assets and liabilities that are traded in active market are based on quoted market price or dealer price quotations. For all other financial instruments, the Group determines fair value using valuation techniques, such as discounted cash flow models, benchmarking against similar instruments for which observable market prices exist, Black-Scholes model or other valuation models. Each valuation technique models the behaviour of underlying market factors. These market factors include interest rates, credit spreads and other inputs used in estimating discount rates, bond prices, foreign exchange rates, equity and equity index prices, volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common financial instruments, such as interest rate and currency swaps that use only observable market data. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses third party valuation models, which are developed from recognised valuation models. These valuation models require expert judgement for the selection of the most appropriate valuation model to be used including input market data and underlying assumptions for the determination of fair value. Model inputs and parameters can be calibrated for market prices for plain vanilla instruments, published forecasts and current or recent observed transactions in similar instruments. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and expert judgement is required to select the most appropriate point in the range.

(d) Credit and Debit Valuation Adjustments ("CVA" and "DVA")

CVA and DVA are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and own credit quality respectively. These adjustments are calculated for both uncollateralised and collateralised derivatives across all asset classes. CVA and DVA are calculated using estimates of expected positive and negative exposures respectively, probability of default and recovery rates, at a counterparty level. Counterparties include (but are not limited to) financial institutions, corporates, sovereigns and sovereign agencies and supranationals. Expected exposure is generally estimated through the simulation of underlying risk factors through Monte Carlo simulation techniques.

Probability of default and recovery rate information is generally sourced from the CDS markets. Where this information is not available, or considered unreliable, alternative approaches are taken based on mapping the counterparty to a sector curve based on the rating, the region and the industry sector. Net adjustment for CVA and DVA remained constant at AED 48.3 million during the year.

Model-related adjustments

Model related adjustments are applied when either model inputs are overly simplified or the model has limitations deriving the fair value of a position. These adjustments are required to correct existing model weaknesses or deficiencies that were highlighted during the model review process.

Notes to the consolidated financial statements (continued)

7 Financial assets and liabilities (continued)

(e) Fair value of financial instruments

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2018:

	Designated at fair value through profit or loss AED'000	Fair value through profit or loss AED'000	FVOCI – with recycle to profit or loss AED'000	FVOCI – without recycle to profit or loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial Assets						
Cash and balances with central banks	-	-	-	-	182,908,727	182,908,727
Investments at fair value through profit or loss	-	14,620,910	-	-	-	14,620,910
Due from banks and financial institutions	-	-	-	-	19,176,092	19,176,092
Reverse repurchase agreements	-	-	-	-	19,033,451	19,033,451
Derivative financial instruments	1,825,955	11,258,237	-	-	-	13,084,192
Loans and advances	-	-	-	-	353,205,228	353,205,228
Non-trading investments	-	-	84,341,873	396,265	5,630,295	90,368,433
Other assets	-	-	-	-	20,380,864	20,380,864
	<u>1,825,955</u>	<u>25,879,147</u>	<u>84,341,873</u>	<u>396,265</u>	<u>600,334,657</u>	<u>712,777,897</u>
Financial Liabilities						
Due to banks and financial institutions	-	-	-	-	40,266,535	40,266,535
Repurchase agreements	-	-	-	-	34,769,685	34,769,685
Commercial Paper	-	-	-	-	18,144,105	18,144,105
Derivative financial instruments	5,297,423	9,922,041	-	-	-	15,219,464
Customer accounts and other deposits	-	-	-	-	465,475,874	465,475,874
Term borrowings	352,522	-	-	-	41,915,651	42,268,173
Other liabilities ¹	-	215,601	-	-	24,372,956	24,588,557
Subordinated notes	-	-	-	-	401,979	401,979
	<u>5,649,945</u>	<u>10,137,642</u>	<u>-</u>	<u>-</u>	<u>625,346,785</u>	<u>641,134,372</u>

¹ Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.

Notes to the consolidated financial statements (continued)

7 Financial assets and liabilities (continued)

(e) Fair value of financial instruments (continued)

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2017:

	Designated at fair value through profit or loss AED'000	Held for trading AED'000	Available for sale AED'000	Held to maturity AED'000	Loans and receivables AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial Assets							
Cash and balances with central banks	-	-	-	-	138,111,054	-	138,111,054
Investments at fair value through profit or loss	11,122	19,309,642	-	-	-	-	19,320,764
Due from banks and financial institutions	-	-	-	-	13,829,490	-	13,829,490
Reverse repurchase agreements	-	-	-	-	21,346,974	-	21,346,974
Derivative financial instruments	524,827	10,874,605	-	-	-	-	11,399,432
Loans and advances	-	-	-	-	330,465,888	-	330,465,888
Non-trading investments	-	-	81,312,483	7,075,467	-	-	88,387,950
Other assets	-	-	-	-	15,542,116	-	15,542,116
	<u>535,949</u>	<u>30,184,247</u>	<u>81,312,483</u>	<u>7,075,467</u>	<u>519,295,522</u>	-	<u>638,403,668</u>
Financial Liabilities							
Due to banks and financial institutions	-	-	-	-	-	30,576,336	30,576,336
Repurchase agreements	-	-	-	-	-	37,674,016	37,674,016
Commercial Paper	-	-	-	-	-	24,124,097	24,124,097
Derivative financial instruments	4,975,181	9,966,150	-	-	-	-	14,941,331
Customer accounts and other deposits	-	-	-	-	-	395,843,664	395,843,664
Term borrowings	193,906	-	-	-	-	41,951,812	42,145,718
Other liabilities ¹	-	1,814,526	-	-	-	18,145,142	19,959,668
Subordinated notes	-	-	-	-	-	420,381	420,381
	<u>5,169,087</u>	<u>11,780,676</u>	-	-	-	<u>548,735,448</u>	<u>565,685,211</u>

¹ Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.

Notes to the consolidated financial statements (continued)

7 Financial assets and liabilities (continued)

(e) Fair value of financial instruments (continued)

Financial instruments measured at fair value - hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
As at 31 December 2018				
Investment at fair value through profit or loss	11,188,493	1,608,998	1,823,419	14,620,910
FVOCI - with recycle to profit or loss	80,714,588	3,630,021	-	84,344,609
FVOCI - without recycle to profit or loss	373,752	-	22,513	396,265
Derivative financial instruments (Assets)	47,141	13,037,051	-	13,084,192
	<u>92,323,974</u>	<u>18,276,070</u>	<u>1,845,932</u>	<u>112,445,976</u>
Term borrowings	-	352,522	-	352,522
Derivative financial instruments (Liabilities)	10,775	15,208,689	-	15,219,464
	<u>10,775</u>	<u>15,561,211</u>	<u>-</u>	<u>15,571,986</u>
As at 31 December 2017				
Financial assets held for trading	17,170,765	2,131,636	7,241	19,309,642
Designated at fair value through profit or loss	11,122	-	-	11,122
Available-for-sale financial assets	76,177,486	3,266,871	1,868,126	81,312,483
Derivative financial instruments (Assets)	6,489	11,392,943	-	11,399,432
	<u>93,365,862</u>	<u>16,791,450</u>	<u>1,875,367</u>	<u>112,032,679</u>
Term borrowings	-	193,906	-	193,906
Derivative financial instruments (Liabilities)	18,770	14,922,561	-	14,941,331
	<u>18,770</u>	<u>15,116,467</u>	<u>-</u>	<u>15,135,237</u>

There were no transfers between the fair value hierarchies for any financial asset or liability except for three securities in fair value through OCI classification which moved from level 1 to level 2 amounting to AED 430 million and two securities from level 3 to level 1 amounting to AED 59.1 million. In regards to financial instruments at fair value through profit or loss, one security was moved from level 1 to level 2 amounting to AED 12 million and two securities were moved from level 2 to level 1 amounting to AED 274 million and one security was moved from level 2 to level 3 amounting to AED 276 thousand.

Notes to the consolidated financial statements (continued)

7 Financial assets and liabilities (continued)

(e) Fair value of financial instruments (continued)

The following table shows a reconciliation of instruments measured at fair value and classified as Level 3:

	2018 AED'000	2017 AED'000
Balance as at 1 January	1,875,367	1,683,720
Additions	113,431	369,324
Effect of business combination	-	13,935
Settlements and other adjustments	(142,866)	(191,612)
Balance as at 31 December	<u>1,845,932</u>	<u>1,875,367</u>

The Level 3 financial instruments mainly comprise of private equity investments, and their valuations are based on the last net asset published by the fund manager. The effect of changes in its valuation is covered as part of equity price risk included in note 5 (c).

8 Cash and balances with central banks

	2018 AED'000	2017 AED'000
Cash on hand	1,696,420	1,778,162
Central Bank of the UAE		
cash reserve deposits	22,496,362	20,732,467
certificates of deposits	17,995,385	14,987,010
other balances	4,926,819	4,505,644
Balances with other central banks	<u>136,050,534</u>	<u>96,107,771</u>
	<u>183,165,520</u>	<u>138,111,054</u>
Less: expected credit losses	(256,793)	-
	<u>182,908,727</u>	<u>138,111,054</u>

Cash reserve deposits are not available for the day to day operations of the Group.

9 Investments at fair value through profit or loss

	2018 AED'000	2017 AED'000
Investments in managed funds	3,917	55,719
Investment in private equity	1,823,408	-
Investments in equities	1,113,625	503,769
Debt securities	<u>11,679,960</u>	<u>18,761,276</u>
	<u>14,620,910</u>	<u>19,320,764</u>

Notes to the consolidated financial statements (continued)

9 Investments at fair value through profit or loss (continued)

In 2017, investments in private equities were reported as non-trading investments classified as available for sale. These have now been reclassified under IFRS 9 as Investments at fair value through profit or loss.

10 Due from banks and financial institutions

	2018 AED'000	2017 AED'000
Current, call and notice deposits	10,118,939	4,492,834
Margin deposits	5,635,525	7,491,982
Fixed deposits	3,471,784	1,844,674
	<u>19,226,248</u>	<u>13,829,490</u>
Less: expected credit losses	(50,156)	-
	<u><u>19,176,092</u></u>	<u><u>13,829,490</u></u>

11 Reverse repurchase agreements

The Group enters into reverse repurchase agreements in the normal course of business in which the third party transfers financial assets to the Group for short term financing. The carrying amount of financial assets at the reporting date amounted to AED 19,033 million (2017: AED 21,347 million).

Expected credit allowance of AED 15,356 thousand has been recognised against reverse repurchase agreements during the year (2017: AED nil).

At 31 December 2018, the fair value of financial assets accepted as collateral that the Group is permitted to sell or re-pledge in the absence of default was AED 19,378 million (2017: AED 20,985 million).

At 31 December 2018, the fair value of financial assets accepted as collateral that have been sold or re-pledged was AED 11,903 million (2017: AED 13,965 million). The Group is obliged to return equivalent securities.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

12 Loans and advances

	2018 AED'000	2017 AED'000
Gross loans and advances	367,056,491	345,089,058
Less: interest suspended	(1,968,015)	(1,895,059)
Less: expected credit loss	(11,883,248)	(12,728,111)
	<u>353,205,228</u>	<u>330,465,888</u>

Notes to the consolidated financial statements (continued)

12 Loans and advances (continued)

	2018 AED'000	2017 AED'000
By counterparty:		
Government sector	5,780,419	5,006,234
Public sector	61,790,844	54,586,399
Banking sector	28,472,001	21,099,155
Corporate / private sector	203,461,407	193,175,957
Personal / retail sector	67,551,820	71,221,313
	<u>367,056,491</u>	<u>345,089,058</u>
Gross loans and advances	<u>367,056,491</u>	<u>345,089,058</u>
	2018 AED'000	2017 AED'000
By product:		
Overdrafts	24,222,265	15,357,085
Term loans	277,776,148	267,331,582
Trade related loans	27,930,930	22,970,550
Personal loans	29,049,808	30,250,597
Credit cards	7,154,605	8,035,270
Vehicle financing loans	922,735	1,143,974
	<u>367,056,491</u>	<u>345,089,058</u>
Gross loans and advances	<u>367,056,491</u>	<u>345,089,058</u>

The Group provides lending against investment in equity securities and funds. The Group is authorised to liquidate these instruments if their coverage falls below the certain agreed threshold. The carrying value of such loans is AED 8,276 million (2017: AED 9,316 million) and the fair value of instruments held as collateral against such loans is AED 13,200 million (2017: AED 19,379 million). During the year, the Group has liquidated insignificant amount of collateral due to fall in the coverage ratio.

Islamic financing

Included in the above loans and advances are the following Islamic financing contracts:

	2018 AED'000	2017 AED'000
Ijara	8,172,431	7,051,924
Murabaha	23,174,504	19,500,917
Mudaraba	59,046	218,177
Others	318,422	168,561
	<u>31,724,403</u>	<u>26,939,579</u>
Total Islamic financing contracts	<u>31,724,403</u>	<u>26,939,579</u>
Less: expected credit loss	(704,387)	(453,034)
Less: suspended profit	(27,811)	(32,671)
	<u>30,992,205</u>	<u>26,453,874</u>

Notes to the consolidated financial statements (continued)

13 Non-trading Investments

	2018 AED'000	2017 AED'000
Available-for-sale investments	-	81,312,483
Fair value through other comprehensive income:		
- with recycle to profit or loss (Debt Investments)	84,344,609	-
- without recycle to profit or loss (Equity Investments)	396,265	-
Held-to-maturity investments	-	7,075,467
Amortised cost	5,630,295	-
Investment in associates and joint venture	65,141	69,760
	90,436,310	88,457,710
Less: expected credit losses	(2,736)	-
	90,433,574	88,457,710

An analysis of non-trading investments by type at the reporting date is shown below:

	2018 AED'000			2017 AED'000		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity investments	373,752	87,654	461,406	450,356	234,364	684,720
Investments in private equity funds ¹	-	-	-	-	1,703,524	1,703,524
Debt investments	89,060,242	914,662	89,974,904	84,330,388	1,727,335	86,057,723
Funds	-	-	-	11,743	-	11,743
	89,433,994	1,002,316	90,436,310	84,792,487	3,665,223	88,457,710
Less: expected credit losses	(2,411)	(325)	(2,736)	-	-	-
	89,431,583	1,001,991	90,433,574	84,792,487	3,665,223	88,457,710

Debt instruments under repurchase agreements included in non-trading investments at 31 December 2018 amounted to AED 22,971 million (31 December 2017: AED 23,781 million).

¹In 2017, investments in private equities were reported as non-trading investments classified as available for sale. These have now been reclassified under IFRS 9 as Investments at fair value through profit or loss.

The non-trading investments include the following investments in associates of the Group:

	Percentage of holding	
	2018	2017
Green Emirates Properties PJSC	-	40%
Midmak Properties LLC	16%	16%
Emirates Digital Wallet LLC	23%	23%
MERCURY	30%	30%

Green Emirates Properties PJSC ("GEP") is a private joint stock company incorporated in the Emirate of Abu Dhabi and engaged mainly in the management and brokerage of real estate properties in United Arab Emirates and overseas.

Notes to the consolidated financial statements (continued)

13 Non-trading investments (continued)

Midmak Properties LLC (“Midmak”) is a limited liability company incorporated in the Emirate of Abu Dhabi. Midmak is involved in real estate activities. Although the Group owns 16% of the outstanding shares of Midmak, the investment has been classified as an associate as the Group exercises significant influence due to representation of the Board of Directors.

MERCURY is a limited liability company incorporated in the Emirate of Abu Dhabi to carry on business of investments and payment service schemes.

Emirates Digital Wallet LLC, established in 2017, is jointly owned by 16 of the leading UAE national banks, supported by the UAE Central Bank.

14 Investment Properties

	2018 AED'000	2017 AED'000
Beginning of the year	6,927,692	6,422,502
Additions / transfer from PPE	576,004	553,203
Business Combination transaction	-	45,106
Disposals / transfer to PPE	(19,439)	(273,035)
Fair value adjustment	(95,764)	179,916
End of the year	<u>7,388,493</u>	<u>6,927,692</u>

Amounts recognised in the consolidated statement of income in respect of net rental income of investment properties are as follows:

	2018 AED'000	2017 AED'000
Rental income derived from investment properties	52,328	34,642
Operating expenses	(33,233)	(29,035)
Net rental income from investment properties	<u>19,095</u>	<u>5,607</u>

Investment properties are stated at fair value which represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under prevailing market conditions at the measurement date.

The Group's investment properties consist of land, buildings and properties under development in Abu Dhabi and Dubai. Management determined that these investment properties consist of two classes of commercial and retail assets, based on the nature, characteristics and risks of each property.

As at 31 December 2018 and 2017, fair value of the properties is based on the valuations performed by third party valuers and all are level 3 under fair value hierarchy. The valuers are accredited with recognised and relevant professional qualifications and with recent experience in the location and category of investment properties being valued. The fair values have been determined based on varying valuation models depending on the intended use of the investment properties; in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards.

Notes to the consolidated financial statements *(continued)*

14 Investment properties *(continued)*

Description of valuation techniques used and key inputs to valuation on investment properties as at 31 December 2018 and 2017:

	Valuation technique	Significant unobservable inputs
Buildings	Comparable and Residual Method Sales Comparison Method	Comparable transactions Current market price of similar assets
Land	Comparable and Residual Method	Cost of construction Developer's profit Financing cost
Properties under development	Discounted cash flow method	Discount rate Cash inflows Cash outflows

Notes to the consolidated financial statements (continued)

15 Property and equipment

	Land, buildings and alterations AED'000	Computer systems and equipment AED'000	Furniture, equipment, safes and vehicles AED'000	Capital work -in- progress AED'000	Total AED'000
Cost					
As at 1 January 2017	1,155,345	625,587	195,258	91,754	2,067,944
Business Combination transaction (note 43)	1,808,495	418,224	232,444	449,371	2,908,534
Additions	40,067	553,037	69,350	285,379	947,833
Allocations from CWIP	51,015	107,907	5,624	(164,546)	-
Disposals, transfers and write offs ¹	(100,307)	(244,234)	(16,804)	(161,635)	(522,980)
At 31 December 2017	2,954,615	1,460,521	485,872	500,323	5,401,331
Additions	395,413	36,336	35,226	870,895	1,337,870
Allocations from CWIP	248,985	747,769	1,752	(998,506)	-
Disposals, transfers and write offs ¹	(443,864)	(251,798)	(129,938)	(75,950)	(901,550)
At 31 December 2018	3,155,149	1,992,828	392,912	296,762	5,837,651
Accumulated depreciation and impairment losses					
As at 1 January 2017	98,593	308,632	132,464	-	539,689
Business Combination transaction (note 43)	477,026	405,027	185,174	-	1,067,227
Charge for the year	73,318	201,850	36,250	-	311,418
Disposals, transfers and write offs ¹	(2,395)	(45,740)	(4,369)	-	(52,504)
At 31 December 2017	646,542	869,769	349,519	-	1,865,830
Charge for the year	81,447	125,073	29,066	-	235,586
Disposals, transfers and write offs ¹	(20,239)	(185,347)	(49,394)	-	(254,980)
At 31 December 2018	707,750	809,495	329,191	-	1,846,436
Carrying amounts					
At 31 December 2017	2,308,073	590,752	136,353	500,323	3,535,501
At 31 December 2018	2,447,399	1,183,333	63,721	296,762	3,991,215

¹ adjusted for foreign exchange translation impact

Notes to the consolidated financial statements (continued)

16 Intangibles

	Goodwill AED'000	Customer relationship AED'000	Core deposit AED'000	License AED'000	Brand AED'000	Total AED'000
Cost						
At 1 January 2017	36,868	170,000	10,000	-	22,000	238,868
Business Combination transaction	17,280,577	1,643,517	966,038	-	-	19,890,132
At 31 December 2017	17,317,445	1,813,517	976,038	-	22,000	20,129,000
Business Combination transaction (note 43)	52,804	(38,801)	(382,703)	368,700	-	-
At 31 December 2018	17,370,249	1,774,716	593,335	368,700	22,000	20,129,000
Accumulated depreciation and impairment losses						
At 1 January 2017	-	60,509	4,478	-	3,483	68,470
Charge for the year	-	120,776	37,280	-	1,100	159,156
At 31 December 2017	-	181,285	41,758	-	4,583	227,626
Charge for the year	-	151,761	48,802	-	1,100	201,663
At 31 December 2018	-	333,046	90,560	-	5,683	429,289
Carrying amounts						
At 31 December 2017	17,317,445	1,632,232	934,280	-	17,417	19,901,374
At 31 December 2018	17,370,249	1,441,670	502,775	368,700	16,317	19,699,711

Notes to the consolidated financial statements (continued)

17 Other assets

	2018 AED'000	2017 AED'000
Interest receivable	9,169,190	7,195,037
Acceptances	6,899,761	5,463,959
Sundry debtors and other receivables	4,534,080	2,976,835
Tax receivable and deferred tax asset	84,460	36,585
	<u>20,687,491</u>	<u>15,672,416</u>
Less: expected credit losses	(103,889)	-
	<u><u>20,583,602</u></u>	<u><u>15,672,416</u></u>

The Group does not perceive any significant credit risk on interest receivable and acceptances.

Acceptances arise when the Group is under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the Group and is therefore recognised as a financial liability in the consolidated statement of financial position. However, every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

18 Due to banks and financial institutions

	2018 AED'000	2017 AED'000
<i>Banks and financial institutions</i>		
Current, call and notice deposits	8,158,400	3,445,932
Margin	897,243	1,131,317
Fixed deposits	16,177,477	12,303,765
	<u>25,233,120</u>	<u>16,881,014</u>
<i>Central banks</i>		
Current and call deposits	50,759	77,417
Fixed and certificate of deposits	14,982,656	13,617,905
	<u>15,033,415</u>	<u>13,695,322</u>
	<u><u>40,266,535</u></u>	<u><u>30,576,336</u></u>

Due to banks and financial institutions are denominated in various currencies and carry a rate of interest in the range of -0.5% to 16.85% (2017: -0.6% to 5.15%).

19 Repurchase agreements

The Group enters into repurchase agreements in the normal course of business by which it transfers recognised financial assets directly to third parties.

The carrying value that is also the fair value of financial assets collateralised at the reporting date amounted to AED 23,707 million (2017: AED 23,784 million) and their associated financial liabilities amounted to AED 34,770 million (2017: AED 37,674 million). The net difference between the fair value of the financial assets collateralised and the carrying value of the repurchase agreement is a shortage AED 11,063 million (2017: shortage AED 13,891 million). The shortage is covered by re-pledging financial assets received as collateral against reverse repurchase agreements or through security borrowing arrangement from custodian.

Notes to the consolidated financial statements (continued)

20 Commercial Paper

The Bank has established two Euro Commercial Paper Programmes with programme limits totaling up to USD 10.5 billion in aggregate. The Bank has a "US Dollar commercial paper programme" with a programme limit of USD 5 billion.

The notes outstanding as at the end of the reporting date amounted to AED 18,144 million (2017: AED 24,124 million) and have maturity period of less than 12 months.

The Group has not had any defaults of principal, interests, or other breaches with respect to its Commercial Paper during 2018.

21 Customer accounts and other deposits

	2018 AED'000	2017 AED'000
By account:		
Current accounts	148,584,905	137,005,200
Savings accounts	10,125,980	13,323,504
Margin accounts	4,893,445	5,744,664
Notice and time deposits	271,291,828	205,096,675
	<u>434,896,158</u>	<u>361,170,043</u>
Certificates of deposit	30,579,716	34,673,621
	<u>465,475,874</u>	<u>395,843,664</u>
	<u>465,475,874</u>	<u>395,843,664</u>
By counterparty:		
Government sector	141,900,487	78,639,783
Public sector	73,231,345	74,303,858
Corporate / private sector	149,329,566	135,281,622
Personal / retail sector	70,434,760	72,944,780
	<u>434,896,158</u>	<u>361,170,043</u>
Certificates of deposit	30,579,716	34,673,621
	<u>465,475,874</u>	<u>395,843,664</u>
	<u>465,475,874</u>	<u>395,843,664</u>
By location:		
UAE	333,263,298	253,909,510
Europe	35,862,559	45,941,151
Arab countries	27,451,582	28,292,139
Americas	31,768,355	22,494,992
Asia	5,411,063	8,711,746
Others	1,139,301	1,820,505
	<u>434,896,158</u>	<u>361,170,043</u>
Certificates of deposit	30,579,716	34,673,621
	<u>465,475,874</u>	<u>395,843,664</u>
	<u>465,475,874</u>	<u>395,843,664</u>

Notes to the consolidated financial statements (continued)

21 Customer accounts and other deposits (continued)

Islamic customers' deposits

Included in the above Customer accounts and other deposits are the following Islamic term deposits:

	2018 AED'000	2017 AED'000
Wakala deposits	1,213,380	781,321
Mudaraba deposits	523,985	623,727
	<u>1,737,365</u>	<u>1,405,048</u>

22 Term borrowings

	2018 AED'000	2017 AED'000
At amortised cost		
Convertible notes	-	1,830,006
Other term notes	41,915,651	40,121,806
	<u>41,915,651</u>	<u>41,951,812</u>
At fair value through profit or loss		
	352,522	193,906
	<u>42,268,173</u>	<u>42,145,718</u>

Convertible notes included USD 500 million notes that matured in March 2018 and carried a fixed coupon that was paid semi-annually in arrears. The value of the conversion option at inception was AED 108,265 thousand and as such was classified as a part of equity under convertible note – equity component reserve. Upon the maturity and as none of the option was exercised, the same has been transferred to General Reserve.

During the year, the Group has issued various fixed and floating rate notes. The Group hedges its currency and interest rate exposure on these notes. The nominal values of the notes issued during the year are stated below:

	2018 AED'000	2017 AED'000
Fixed rate		
AED	-	96,830
CHF	744,638	565,454
CNH	36,861	62,015
CNY	1,418,208	-
USD	5,176,396	-
GBP	117,564	-
HKD	187,593	-
Floating rate		
USD	1,384,631	2,227,724
	<u>9,065,891</u>	<u>2,952,023</u>

The Group has hedged the interest rate and foreign currency exposure on term borrowings. The nominal value hedged are AED 33.52 billion (2017: AED 27.84 billion) and the risks being hedged have a net negative fair value of AED 1,264 million (2017: net negative fair value of AED 302 million). The Group has not had any defaults of principal, interests, or other breaches with respect to its term borrowings during 2018 and 2017.

Notes to the consolidated financial statements (continued)

22 Term Borrowings (continued)

2018

2017

Currency	Interest	2018					Total AED'000	2017					Total AED'000	
		Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 Years AED'000		Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 Years AED'000		
AED	Equity linked	-	-	-	-	-	-	-	96,830	-	-	-	-	96,830
AED	3 month EIBOR + 2.59% p.a.	-	49,991	-	-	-	49,991	-	-	49,936	-	-	-	49,936
AUD	Fixed rate of 3.17% to 5.00% p.a.	1,039,197	649,250	155,245	-	-	1,843,692	861,918	-	1,983,239	84,717	-	-	2,929,874
AUD	3 month AUD BBSW + 110 bps to 142 bps p.a.	-	51,792	-	64,504	-	116,296	-	-	57,268	71,812	-	-	129,080
CHF	Fixed rate of 0.16% to 0.625% p.a.	-	-	-	1,485,350	549,312	2,034,662	-	-	-	754,538	556,742	-	1,311,280
CNH	Fixed rate of 4% to 4.79% p.a.	69,571	310,856	168,656	36,861	-	585,944	73,324	355,185	572,242	-	-	-	1,000,751
CNY	Fixed rate of 4.50% to 4.80% p.a.	-	-	1,457,598	-	-	1,457,598	-	-	-	-	-	-	-
EUR	Fixed rate of 0.516% to 3.00% p.a.	-	-	105,495	-	547,502	652,997	-	-	111,017	-	580,853	-	691,870
EUR	3 month EURIBOR + 0.33% to 0.36% p.a.	-	-	250,582	-	-	250,582	66,128	-	263,084	-	-	-	329,212
GBP	Fixed rate of 1.66% p.a.	-	-	117,265	-	-	117,265	-	-	-	-	-	-	-
HKD	Fixed rate of 2.37% to 4.45% p.a.	-	151,052	243,099	707,220	182,810	1,284,181	-	-	303,202	238,052	567,182	-	1,108,436
JPY	Fixed rate of 0.86% to 2.60% p.a.	-	333,661	-	-	356,906	690,567	-	-	325,853	-	347,592	-	673,445
MXN	Fixed rate of 0.50% p.a.	-	-	-	-	1,425	1,425	-	-	-	-	1,960	-	1,960
MYR	Fixed rate of 4.90% p.a.	-	-	432,417	-	-	432,417	-	-	453,894	-	-	-	453,894
SGD	Fixed rate of 2.10% p.a.	-	-	-	-	-	-	-	30,249	-	-	-	-	30,249
USD	Fixed rate of till 5.10% p.a.	1,836,365	2,709,970	5,744,730	5,061,974	9,608,102	24,961,141	1,830,007	-	10,284,027	2,134,531	8,265,264	-	22,513,829
USD	1-3 Month LIBOR + till 3.41% p.a.	-	6,096,085	1,570,216	123,114	-	7,789,415	367,098	2,221,999	7,992,009	243,966	-	-	10,825,072
		2,945,133	10,352,657	10,245,303	7,479,023	11,246,057	42,268,173	3,198,475	2,704,263	22,395,771	3,527,616	10,319,593	-	42,145,718

Notes to the consolidated financial statements (continued)

22 Term borrowings (continued)

During the year, the Group has issued various fixed and floating rate notes. The nominal values of the notes issued during the year are stated below:

	2018 AED'000	2017 AED'000
Beginning of the year	42,145,718	18,294,545
Increase due to acquisition	-	31,308,591
New issuances	9,076,645	3,135,955
Redemptions	(7,735,417)	(11,433,020)
Fair valuation, exchange and other adjustments	(1,218,773)	839,647
End of the year	<u>42,268,173</u>	<u>42,145,718</u>

23 Subordinated notes

	2018 AED'000	2017 AED'000
10 December 2012 issue (4.75 percent fixed rate maturing on 9 December 2027)	<u>401,979</u>	<u>420,381</u>

The Group has hedged the interest rate and foreign currency exposure on the subordinated notes. The Group has not had any defaults of principal, interests, or other breaches with respect to its subordinated notes during the year ended 31 December 2018.

24 Other liabilities

	2018 AED'000	2017 AED'000
Interest payable	8,329,375	6,108,042
Acceptances - net of discounting (note 17)	5,668,690	2,506,422
Provision employees' end of service benefits	472,607	512,346
Accounts payable, sundry creditors and other liabilities	10,943,162	11,745,645
Overseas income tax	192,546	160,884
	<u>25,606,380</u>	<u>21,033,339</u>

Employees end of service benefits

Defined benefit obligations

The Group provides for end of service benefits for its eligible employees. An actuarial valuation has been carried out as at December 31, 2018 to ascertain present value of the defined benefit obligation. A registered actuary in the UAE was appointed to evaluate the same. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

The following key assumptions (weighted average rates) were used to value the liabilities:

Discount rate	<u>3.53 % per annum</u>
Salary increase rate	<u>1.77 % per annum</u>

Notes to the consolidated financial statements (continued)

24 Other liabilities (continued)

Demographic assumptions for mortality, withdrawal and retirement were used in valuing the liabilities and benefits under the plan. Because of the nature of the benefit, which is a lump sum payable on exit due to any cause, a combined single decrement rate has been used.

A shift in the in the discount rate assumption by +/- 50 basis points would impact the liability by AED 9,725 thousand and AED 10,231 thousand respectively. Similarly, a shift in the salary increment assumption by +/- 50 basis points would impact the liability by AED 10,390 thousand and AED 9,966 thousand respectively.

The movement in the employees' end of service obligation was as follows:

	2018 AED'000	2017 AED'000
Balance at 1 January	512,346	75,934
Increase due to acquisition	-	455,300
Net charge during the year	66,285	47,920
Paid during the year	(111,353)	(69,761)
Other adjustments	5,329	2,953
Balance at 31 December	<u>472,607</u>	<u>512,346</u>

Defined contribution plan

The Group pays contributions for its eligible employees which are treated as defined contribution plans. The charge for the year in respect of these contributions is AED 69,955 thousand (2017: AED 91,472 thousand). As at the reporting date, pension payable of AED 10,795 (2017: AED 16,576 thousand) has been classified under other liabilities.

Overseas income tax

The Group has provided for overseas income tax in accordance with management's estimate of the total amount payable based on tax rates enacted or substantially enacted as at the reporting date. Where appropriate the Group has made payments of tax on account in respect of these estimated liabilities.

The overseas income tax charge for the year is calculated based upon the adjusted net profit for the year. The movement in the provision was as follows:

	2018 AED'000	2017 AED'000
Balance at 1 January	160,884	42,680
Increase due to acquisition	-	171,411
Charge for the year	325,004	224,989
Overseas income tax paid, net of recoveries	(293,342)	(278,196)
At 31 December	<u>192,546</u>	<u>160,884</u>

25 Capital and reserves

Share Capital

	2018 AED'000	2017 AED'000
Ordinary shares of AED 1 each	<u>10,897,545</u>	<u>10,897,545</u>
Treasury shares of AED 1 each	<u>25,530</u>	<u>42,433</u>

Notes to the consolidated financial statements (continued)

25 Capital and reserves (continued)

Share Capital (continued)

At the Annual General Meeting (AGM) held on 25 February 2018, the shareholders of the Bank approved a cash dividend of AED 0.70 per ordinary shares amounting to AED 7,628 million.

Statutory and special reserves

In accordance with the Bank's Articles of Association and the requirements of the Union Law No. (10) of 1980, a minimum of 10% of the annual net profit should be transferred to both statutory and special reserve until each of these reserves equal to 50% of the paid-up share capital. The Statutory and special reserve are not available for distribution to the shareholders.

Dividends

The following dividends were paid by the Group during the year ended 31 December:

	2018 AED'000	2017 AED'000
Dividend on ordinary shares paid during the year	<u>7,578,784</u>	<u>4,489,524</u>

Other reserves

Other reserves include the following:

	Fair value reserve AED'000	General reserve AED'000	Foreign currency translatio n reserve AED'000	Revaluati on reserve AED'000	IFRS 9 reserve - specific AED'000	IFRS 9 reserve – collective AED'000	Total AED'000
As at 1 January 2017	412,790	120,000	(88,327)	280,601	-	-	725,064
Other comprehensive income for the period	212,420	-	25,252	-	-	-	237,672
As at 31 December 2017	<u>625,210</u>	<u>120,000</u>	<u>(63,075)</u>	<u>280,601</u>	<u>-</u>	<u>-</u>	<u>962,736</u>
As at 1 January 2018	625,210	120,000	(63,075)	280,601	-	-	962,736
Impact of adopting IFRS 9 at 1 January 2018 (note 4)	(184,078)	-	-	-	-	-	(184,078)
	<u>441,132</u>	<u>120,000</u>	<u>(63,075)</u>	<u>280,601</u>	<u>-</u>	<u>-</u>	<u>778,658</u>
Other comprehensive income for the period	(1,039,153)	-	(247,856)	-	-	-	(1,287,009)
Transfer during the year	-	108,265	-	-	-	-	108,265
IFRS 9 reserve movement	-	-	-	-	297,621	64,988	362,609
	<u>(598,021)</u>	<u>228,265</u>	<u>(310,931)</u>	<u>280,601</u>	<u>297,621</u>	<u>64,988</u>	<u>(37,477)</u>

(i) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of non-trading investments, until the investment is derecognised or impaired, and cash flow hedge reserve.

Notes to the consolidated financial statements (continued)

25 Capital and reserves (continued)

(i) Fair value reserve

	2018 AED'000	2017 AED'000
<i>Revaluation reserve – instruments at FVOCI</i>		
At 1 January	677,495	413,171
Impact of adopting IFRS 9 at 1 January 2018	(184,078)	-
Restated balance at 1 January	493,417	413,171
Net unrealised gains during the year	(1,137,667)	635,883
Net cumulative realised gains recognised in the consolidated statement of profit or loss during the year	136,412	(371,559)
Impact of ECL	(5,029)	-
At 31 December	(512,867)	677,495
<i>Hedging reserve – cash flow hedge</i>		
At 1 January	(52,285)	(381)
Changes in fair value	(32,869)	(51,904)
At 31 December	(85,154)	(52,285)
Total at 31 December	(598,021)	625,210

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions. During the year, there has been no significant transfer from cash flow hedge reserve to profit or loss.

(ii) General reserve

The general reserve is available for distribution to the shareholders at the recommendation of the Board of Directors.

(iii) Revaluation reserve

The revaluation reserve of AED 280,601 thousand (2017: AED 280,601 thousand) is related to land included under property and equipment.

(iv) Foreign currency translation reserve

Foreign currency translation reserve represents the exchange differences arising from translation of the net investment in foreign operations. During the year, there has been no significant transfer from foreign currency translation reserve to profit or loss.

(v) IFRS 9 reserve

In accordance with CBUAE circular, in case where provision under CBUAE guidance exceed provision under IFRS 9, the excess is required to be transferred to IFRS 9 reserve. The details of the same as below:

	2018 AED'000
<i>Impairment reserve – Specific</i>	
Specific provisions under Circular 28/2010 of CBUAE	6,723,798
Less: Stage 3 provisions under IFRS	6,426,177
Specific provision transferred to the impairment reserve	297,621

Notes to the consolidated financial statements (continued)

25 Capital and reserves (continued)

Other reserves (continued)

(v) IFRS 9 reserve (continued)

Impairment reserve – Collective

Collective provisions under Circular 28/2010 of CBUAE

Less: Stage 1 and Stage 2 provisions under IFRS 9

Collective provision transferred to the impairment reserve

2018
AED'000

6,408,021

6,343,033

64,988

26 Tier 1 capital notes

		2018 AED'000	2017 AED'000
Government of Abu Dhabi Notes (6 month EIBOR plus 2.3 percent per annum)	AED	8,000,000	8,000,000
USD 750 million Notes (5.25 percent fixed rate until 2020, thereafter 5 year mid swap rate plus 3.35 percent per annum)	USD	2,754,750	2,754,750
		<u>10,754,750</u>	<u>10,754,750</u>

Tier 1 capital notes are perpetual, subordinated, unsecured and carry coupons to be paid semi-annually in arrears. The Bank may elect not to pay a coupon at its own discretion. The note holder does not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default. In addition, there are certain circumstances under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Group ranking pari passu with or junior to the Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

During the year, coupon payment election was made by the Bank in the amount of AED 495,047 thousand (31 December 2017: AED 381,089 thousand).

27 Share option scheme

NBAD had introduced in 2008 a share based payment scheme (the "Scheme") for selected employees which would vest over three years and can be exercised within the next three years after the vesting period. The key vesting condition is that the option holder is in continued employment with the Group until the end of the vesting period. The options lapse six years after their date of grant irrespective of whether they are exercised or not.

The Group established a subsidiary to issue shares when the vested option is exercised by the employee. These shares are treated as treasury shares until exercised by the option holders.

As part of the merger, the Group has continued the scheme with the same terms and conditions. Employees exercising under the NBAD share option scheme shall be granted shares of the new entity.

Notes to the consolidated financial statements (continued)

27 Share option scheme (continued)

Post-merger and up to the date of statement of financial position, 16,903 thousand options (31 December 2017: 4,399 thousand) had been exercised by the option holders resulting in an increase in the total share capital by AED 16,903 thousand (31 December 2017: AED 4,399 thousand) and share premium by AED 161,399 thousand (31 December 2017: AED 29,626 thousand).

28 Interest income

	2018 AED'000	2017 AED'000
<i>Interest from:</i>		
Central banks	968,840	339,797
Banks and financial institutions	1,040,394	452,859
Reverse repurchase agreements	388,117	261,919
Investments at fair value through profit or loss	385,429	352,009
Non-trading investments	2,310,733	1,738,032
Loans and advances	16,742,891	13,187,171
	<u>21,836,404</u>	<u>16,331,787</u>

29 Interest expense

	2018 AED'000	2017 AED'000
<i>Interest to:</i>		
Banks and financial institutions	800,414	583,820
Repurchase agreements	706,723	373,651
Commercial paper	432,428	163,419
Customer accounts and other deposits	5,307,623	2,648,424
Term borrowings	1,542,847	1,150,740
Subordinated notes	20,410	15,540
	<u>8,810,445</u>	<u>4,935,594</u>

30 Net fee and commission income

	2018 AED'000	2017 AED'000
Fee and commission income		
Trade finance	1,053,033	855,577
Collection services	33,569	34,756
Brokerage income	25,535	32,806
Asset management and investment services	141,906	82,837
Investments, derivatives and risk participation	7,090	4,516
Retail and corporate lending	1,333,257	1,012,525
Cards and e-services	1,885,819	1,595,675
Accounts related services	60,165	84,023
Commission on transfers	115,273	96,318
Others	224,341	227,028
	<u>4,879,988</u>	<u>4,026,061</u>
Total fee and commission income	<u>4,879,988</u>	<u>4,026,061</u>

Notes to the consolidated financial statements (continued)

30 Net fee and commission income (continued)

	2018 AED'000	2017 AED'000
Fee and commission expense		
Brokerage commission	42,530	28,224
Handling charges	32,548	22,740
Credit card charges	1,086,900	815,540
Retail and corporate lending	306,290	228,016
Others	19,348	33,686
	<u>1,487,616</u>	<u>1,128,206</u>
Net fee and commission income	<u><u>3,392,372</u></u>	<u><u>2,897,855</u></u>

31 Net foreign exchange gain

	2018 AED'000	2017 AED'000
Trading and retranslation gain on foreign exchange and related derivatives ¹	1,776,161	640,543
Dealings with customers	266,319	287,645
	<u>2,042,480</u>	<u>928,188</u>

¹ Due to effective hedging strategies, the offsetting impact of hedging instruments is reflected in the net gains from sale of non-trading investments (note 32).

Includes negative interest income of AED 285.44 million (2017: AED 213 million) arising from placement with ECB.

32 Net gain on investments and derivatives

	2018 AED'000	2017 AED'000
Net realised and unrealised gain on investments at fair value through profit or loss and derivatives	891,021	294,021
Net (loss) / gain from sale of non-trading investments	(136,412)	371,559
Dividend income	71,616	20,551
	<u>826,225</u>	<u>686,131</u>

Notes to the consolidated financial statements (continued)

33 Other Operating Income

	2018 AED'000	2017 AED'000
Investment property (loss) / income	(75,574)	331,960
Leasing related income	106,905	95,824
Other income ¹	127,375	44,306
	<u>158,706</u>	<u>472,090</u>

Includes gain on sale of property and equipment amounting to AED 111.4 million (2017: AED 2.2 million)

34 General, administration and other operating expenses

	2018 AED'000	2017 AED'000
Staff costs	3,167,377	2,782,316
Other general and administration expenses	1,686,352	1,611,022
Depreciation (note 15)	235,586	311,418
Intangible amortisation (note 16)	201,663	159,156
Sponsorships and donations	37,577	37,584
	<u>5,328,555</u>	<u>4,901,496</u>

35 Net impairment charge

	2018 AED'000	2017 AED'000
Impairment charge on loans and advances	2,107,219	2,362,297
other financial assets	33,147	843
unfunded exposure	(326,543)	-
Recoveries	(303,770)	(297,777)
Write-off of impaired financial assets	215,741	21,354
	<u>1,725,794</u>	<u>2,086,717</u>

36 Overseas income tax expense

In addition to adjustments relating to deferred taxation, the charge for the year is calculated based upon the adjusted net profit for the year at rates of tax applicable in respective overseas locations.

The charge to the consolidated statement of profit or loss for the year was as follows:

	2018 AED'000	2017 AED'000
Charge for the year	<u>325,004</u>	<u>224,989</u>

Notes to the consolidated financial statements (continued)

37 Cash and cash equivalents

	2018 AED'000	2017 AED'000
Cash and balances with Central Banks	183,165,520	138,111,054
Due from banks and financial institutions	19,226,248	13,829,490
	<u>202,391,768</u>	<u>151,940,544</u>
<i>Less: Balances with Central Banks maturing after three months of placement</i>	(18,726,908)	(10,186,771)
<i>Less: Due from banks and financial institutions maturing after three months of placement</i>	(7,987,484)	(7,147,856)
	<u><u>175,677,376</u></u>	<u><u>134,605,917</u></u>

38 Commitments and contingencies

The Group, in the ordinary course of business, enters into various types of transactions that involve undertaking certain commitments such as letters of credit, guarantees and undrawn loan commitments.

There were no other significant changes in contingent liabilities and commitments during the year other than those arising out of normal course of business.

	2018 AED'000	2017 AED'000
Letter of credit	59,955,337	48,863,532
Letters of guarantees	104,894,326	102,810,624
Financial guarantees	285,311	763,441
Trade contingencies	<u>165,134,974</u>	<u>152,437,597</u>
Undrawn commitment to extend credit	45,659,602	42,983,794
Commitments for future capital expenditure	991,968	1,051,386
Commitments for future private equity investments	772,322	985,495
Commitments for operating lease payments	200,574	169,950
	<u>47,624,466</u>	<u>45,190,625</u>
Total commitments and contingencies	<u><u>212,759,440</u></u>	<u><u>197,628,222</u></u>

Credit risk characteristics of these unfunded facilities closely resemble the funded facilities as described in note 5 are neither past due nor impaired.

Letters of credit and guarantee ("Trade contingencies") commit the Group to make payments on behalf of customers' contingent upon the production of documents or the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to extend loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Notes to the consolidated financial statements (continued)

38 Commitments and contingencies (continued)

Commitments for operating lease payments are payable as follows:

	2018 AED'000	2017 AED'000
Less than one year	62,098	94,707
Between one and five year	119,996	61,662
More than five year	18,480	13,581
Total commitments	200,574	169,950

Financial guarantee contracts includes credit default agreements entered with banks and financial institutions amounting to AED 73.46 million (2017: AED 165 million) which are primarily denominated in US Dollars.

Financial guarantee contracts mainly pertain to the banks and financial institutions.

Concentration by location:

	Undrawn loan Commitments		Trade contingencies	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
UAE	24,865,542	19,803,169	118,693,398	105,597,814
Europe	7,422,210	9,743,421	19,593,289	22,886,522
Arab countries	4,202,963	2,635,163	6,967,012	8,366,824
Americas	3,035,469	3,703,440	11,956,195	5,843,811
Asia	3,659,085	2,814,846	7,755,276	8,954,804
Others	2,474,333	4,283,755	169,804	787,822
	45,659,602	42,983,794	165,134,974	152,437,597

39 Derivative financial instruments

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risks. Derivative financial instruments include forwards, futures, swaps and options. These transactions are primarily entered with banks and financial institutions.

Forwards and futures

Currency forwards represent commitments to purchase foreign and/or domestic currencies, including non-deliverable spot transactions (i.e. the transaction is net settled). Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk for futures contracts is negligible, as they are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Notes to the consolidated financial statements (continued)

39 Derivative financial instruments (continued)

Swaps

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps). No exchange of principal takes place, except for certain cross currency swaps. The Group's credit risk represents the potential loss if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of risk. Options may be either exchange-traded or negotiated between the Group and a customer over the counter (OTC).

Derivatives are measured at fair value by reference to published price quotations in an active market. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models like counterparty prices or valuation techniques such as discounted cash flows, market prices, yield curves and other reference market data.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to their fair values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

Notes to the consolidated financial statements (continued)

39 Derivative financial instruments (continued)

31 December 2018

	Positive market value	Negative market value	Notional amount	Notional amounts by term to maturity				
				Less than three months	From three months to one year	From one year to three years	From three years to five years	Over five years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Held for trading:								
<i>Interest rate derivatives</i>								
Swaps	8,152,999	7,598,766	1,099,051,876	114,781,773	287,845,196	303,348,196	211,848,433	181,228,278
Forwards & Futures	5,165	3,724	57,016,206	11,031,032	6,199,712	39,785,462	-	-
Options & Swaptions	83,215	117,837	64,186,503	1,517,329	52,873,360	8,028,574	1,010,075	757,165
<i>Foreign exchange derivatives</i>								
Forwards	1,652,063	1,676,905	377,427,044	231,424,514	116,532,513	26,411,029	3,058,971	17
Options	327,635	284,415	95,215,819	42,284,251	46,249,596	6,182,935	499,037	-
<i>Other derivatives contracts</i>	1,037,160	240,395	8,980,883	3,856,034	2,046,555	386,641	2,691,653	-
	<u>11,258,237</u>	<u>9,922,042</u>	<u>1,701,878,331</u>	<u>404,894,933</u>	<u>511,746,932</u>	<u>384,142,837</u>	<u>219,108,169</u>	<u>181,985,460</u>
Held as fair value hedges:								
<i>Interest rate derivatives</i>								
Swaps	1,242,665	4,208,904	106,264,029	1,642,409	7,880,884	22,661,174	20,900,395	53,179,167
Swaptions	583,148	461,592	108,956,518	599,041	12,677,590	22,471,213	20,232,359	52,976,315
	<u>1,825,813</u>	<u>4,670,496</u>	<u>215,220,547</u>	<u>2,241,450</u>	<u>20,558,474</u>	<u>45,132,387</u>	<u>41,132,754</u>	<u>106,155,482</u>
<i>Held as cash flow hedges</i>								
<i>Interest rate derivatives</i>								
Swaps	123	503,660	4,800,940	-	178,697	4,622,243	-	-
<i>Foreign exchange derivatives</i>								
Forwards	19	123,266	20,042,459	20,042,459	-	-	-	-
	<u>142</u>	<u>626,926</u>	<u>24,843,399</u>	<u>20,042,459</u>	<u>178,697</u>	<u>4,622,243</u>	<u>-</u>	<u>-</u>
Total	<u><u>13,084,192</u></u>	<u><u>15,219,464</u></u>	<u><u>1,941,942,277</u></u>	<u><u>427,178,842</u></u>	<u><u>532,484,103</u></u>	<u><u>433,897,467</u></u>	<u><u>260,240,923</u></u>	<u><u>288,140,942</u></u>

Notes to the consolidated financial statements (continued)

39 Derivative financial instruments (continued)

31 December 2017

	Positive market value	Negative market value	Notional amount	Notional amounts by term to maturity				
				Less than three months	From three months to one year	From one year to three years	From three years to five years	Over five years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Held for trading:								
<i>Interest rate derivatives</i>								
Swaps	6,742,787	6,262,503	837,892,379	83,721,947	134,243,557	283,292,685	183,526,708	153,107,482
Forwards & Futures	4,213	2,349	39,465,202	12,120,055	23,672,514	3,672,633	-	-
Options & Swaptions	399,934	281,381	73,110,496	3,267,796	7,085,758	10,556,309	10,893,947	41,306,686
<i>Foreign exchange derivatives</i>								
Forwards	2,863,604	2,730,662	370,178,971	221,271,826	112,078,707	33,509,940	2,562,315	756,183
Options	563,748	394,103	132,404,746	44,551,147	67,697,369	19,114,805	1,041,425	-
<i>Other derivatives contracts</i>	300,319	295,152	7,276,322	3,186,012	1,389,224	492,237	2,208,849	-
	<u>10,874,605</u>	<u>9,966,150</u>	<u>1,460,328,116</u>	<u>368,118,783</u>	<u>346,167,129</u>	<u>350,638,609</u>	<u>200,233,244</u>	<u>195,170,351</u>
Held as fair value hedges:								
<i>Interest rate derivatives</i>								
Swaps	500,489	4,284,555	84,701,044	1,328,588	3,732,969	19,483,570	20,063,436	40,092,481
Swaptions	24,267	269,498	7,805,757	-	-	-	-	7,805,757
	<u>524,756</u>	<u>4,554,053</u>	<u>92,506,801</u>	<u>1,328,588</u>	<u>3,732,969</u>	<u>19,483,570</u>	<u>20,063,436</u>	<u>47,898,238</u>
Held as cash flow hedges								
<i>Interest rate derivatives</i>								
Swaps	2	414,382	5,023,946	-	173,736	3,850,664	999,546	-
Forwards	69	6,746	2,918,877	2,918,877	-	-	-	-
	<u>71</u>	<u>421,128</u>	<u>7,942,823</u>	<u>2,918,877</u>	<u>173,736</u>	<u>3,850,664</u>	<u>999,546</u>	<u>-</u>
Total	<u><u>11,399,432</u></u>	<u><u>14,941,331</u></u>	<u><u>1,560,777,740</u></u>	<u><u>372,366,248</u></u>	<u><u>350,073,834</u></u>	<u><u>373,972,843</u></u>	<u><u>221,296,226</u></u>	<u><u>243,068,589</u></u>

Notes to the consolidated financial statements (continued)

39 Derivative financial instruments (continued)

The positive / negative fair value in respect of derivatives represents the gain/loss respectively, arising on fair valuation of the trading and hedging instrument. These amounts are not indicative of any current or future losses, as a similar positive / negative amount has been adjusted to the carrying value of the hedged loans and advances, non-trading investments, term borrowings and subordinated notes.

As at December 31, 2018, the Group received cash collateral of AED 1,136.5 million (2017: AED 1,017.2 million) against positive fair value of derivative assets from certain counterparties. Correspondingly, the Group placed cash collateral of AED 6,124.4 (2017: AED 7,722.1 million) against the negative fair value of derivative liabilities.

Derivative related credit risk:

This is limited to the positive fair value of instruments that are favourable to the Group. These transactions are primarily entered with banks and financial institutions.

Derivatives held for trading

The Group uses derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate and credit risks or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices. The instruments used mainly include interest rate and currency swaps and forward contracts. The fair values of those derivatives are shown in the table above.

Derivatives held as fair value hedge

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management strategy by taking offsetting positions in order to reduce its own exposure to fluctuations in exchange and interest rates. The Group uses interest rate swaps to hedge against the changes in fair value arising from specifically identified interest bearing assets such as loans and advances, non-trading investments, term borrowings and subordinate notes. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

Derivatives held as cash flow hedge

The Group uses forward contracts to hedge the foreign currency risk arising from its financial instruments. The Group has substantially matched the critical terms of the derivatives to have an effective hedge relationship.

40 Segmental information

The operating structure consists of four key Business segments across Geographic segments that are driving the business strategy, customer value propositions, products and channel development and customer relationships in addition to supporting the delivery of the Group's financial performance.

Business segments

Corporate & Investment Banking ("CIB")

Covers corporate and institutional clients through dedicated client segments (Corporate Banking, Institutional Banking, Commercial Banking, Privileged Clients Groups and Financial Institutions). CIB offers Credit facilities, Global Transaction Services, Corporate Finance, Islamic Finance and Global Markets products to both UAE and international clients.

Personal Banking Group ("PBG")

The business targets retail, affluent, high net-worth customers, Islamic consumer finance and SME customer segments. The products' ranges offered include every day banking products such as current accounts, deposits, credit cards, loans, sophisticated investment solutions, business banking products and services. The business furnishes variety of distribution and sales channels, including mobile and internet banking, branches, direct sales agents and through its banking subsidiaries namely Dubai First, Aseel and First Abu Dhabi Islamic Finance.

Notes to the consolidated financial statements *(continued)*

40 **Segmental information** (continued)

Subsidiaries

The business includes a diversified business model supported by complementary offerings provided across real estate, property management, brokerage and conventional banking. This business covers subsidiaries partially or fully owned by the Group, namely FAB Properties, ADNP, Mismak, FAB Securities and First Gulf Libyan Bank.

Head office

The Group provides centralized human resources, information technology, operations, finance, strategy, investor relations, risk management, credit management, corporate communications, legal & compliance, internal audit, procurement, treasury operations, integration management office and administrative support to all of its business units.

Geographic segments

The Group is managing its various business segments through a network of branches, subsidiaries and representative offices within the two defined geographic segments which are UAE and International. International business is further sub-divided into two sub-segments which are Europe, Americas, Middle East and Africa ("EAMEA") and Asia Pacific ("APAC").

- **Europe, Americas, Middle East and Africa (EAMEA)**
FAB network in the EAMEA region is operated through its presence in United States of America, Brazil, United Kingdom, France, Switzerland, Oman, Bahrain, Qatar, Egypt, Sudan, Kuwait, Lebanon, Jordan, and Kingdom of Saudi Arabia.
- **Asia Pacific (APAC)**
FAB's business in the Asia region is run through its presence in Singapore, Hong Kong, Korea, China, Malaysia and India.

Notes to the consolidated financial statements (continued)

40 Segmental information (continued)

	Business Segment					Geographic Segment			
	Corporate and Investment Banking AED'000	Personal Banking Group AED'000	Subsidiaries AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Europe, Americas, Middle East and Africa AED'000	Asia - Pacific AED'000	Total AED'000
For the year ended 31 December 2018									
Net Interest income	5,594,591	5,520,961	(40,251)	1,950,658	13,025,959	11,298,979	1,451,086	275,894	13,025,959
Net non-interest income	4,314,443	1,785,142	189,079	131,119	6,419,783	5,551,567	597,591	270,625	6,419,783
Operating income	<u>9,909,034</u>	<u>7,306,103</u>	<u>148,828</u>	<u>2,081,777</u>	<u>19,445,742</u>	<u>16,850,546</u>	<u>2,048,677</u>	<u>546,519</u>	<u>19,445,742</u>
General administration and other operating expenses	1,741,348	2,768,574	137,375	681,258	5,328,555	4,381,444	731,204	215,907	5,328,555
Net impairment charge	<u>1,222,562</u>	<u>457,486</u>	<u>(13,704)</u>	<u>59,450</u>	<u>1,725,794</u>	<u>1,807,162</u>	<u>(155,810)</u>	<u>74,442</u>	<u>1,725,794</u>
Profit before taxation	<u>6,945,124</u>	<u>4,080,043</u>	<u>25,157</u>	<u>1,341,069</u>	<u>12,391,393</u>	<u>10,661,940</u>	<u>1,473,283</u>	<u>256,170</u>	<u>12,391,393</u>
Overseas taxation	<u>188,097</u>	<u>94,001</u>	<u>33,163</u>	<u>9,743</u>	<u>325,004</u>	<u>2,678</u>	<u>295,843</u>	<u>26,483</u>	<u>325,004</u>
Net profit for the period	<u>6,757,027</u>	<u>3,986,042</u>	<u>(8,006)</u>	<u>1,331,326</u>	<u>12,066,389</u>	<u>10,659,262</u>	<u>1,177,440</u>	<u>229,687</u>	<u>12,066,389</u>
As at 31 December 2018									
Segment total assets	<u>630,066,190</u>	<u>101,659,261</u>	<u>13,179,664</u>	<u>127,546,798</u>	<u>872,451,913</u>	<u>619,662,984</u>	<u>205,297,041</u>	<u>32,858,649</u>	<u>857,818,674</u>
Inter segment balances					(128,326,718)				(113,693,479)
Total assets					<u>744,125,195</u>				<u>744,125,195</u>
Segment total liabilities	<u>618,795,941</u>	<u>92,621,803</u>	<u>9,916,308</u>	<u>49,144,861</u>	<u>770,478,913</u>	<u>528,049,917</u>	<u>198,827,604</u>	<u>28,968,153</u>	<u>755,845,674</u>
Inter segment balances					(128,326,718)				(113,693,479)
Total liabilities					<u>642,152,195</u>				<u>642,152,195</u>

Notes to the consolidated financial statements (continued)

40 Segmental information (continued)

	Business Segment					Geographic Segment			
	Corporate and Investment Banking AED'000	Personal Banking Group AED'000	Subsidiaries AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Europe, Americas, Middle East and Africa AED'000	Asia - Pacific AED'000	Total AED'000
For the year ended 31 December 2017									
Net Interest income	4,869,432	4,924,893	(79,930)	1,681,798	11,396,193	10,098,538	1,043,368	254,287	11,396,193
Net non-interest income	2,754,497	1,630,590	583,205	15,972	4,984,264	4,353,584	490,054	140,626	4,984,264
Operating income	<u>7,623,929</u>	<u>6,555,483</u>	<u>503,275</u>	<u>1,697,770</u>	<u>16,380,457</u>	<u>14,452,122</u>	<u>1,533,422</u>	<u>394,913</u>	<u>16,380,457</u>
General administration and other operating expenses	1,542,480	2,435,049	121,018	802,949	4,901,496	4,229,801	522,055	149,640	4,901,496
Net impairment charge	<u>296,627</u>	<u>2,036,599</u>	<u>50,967</u>	<u>(297,476)</u>	<u>2,086,717</u>	<u>1,985,084</u>	<u>90,921</u>	<u>10,712</u>	<u>2,086,717</u>
Profit before taxation	<u>5,784,822</u>	<u>2,083,835</u>	<u>331,290</u>	<u>1,192,297</u>	<u>9,392,244</u>	<u>8,237,237</u>	<u>920,446</u>	<u>234,561</u>	<u>9,392,244</u>
Overseas taxation	<u>135,963</u>	<u>65,523</u>	<u>21,973</u>	<u>1,530</u>	<u>224,989</u>	<u>3,864</u>	<u>194,916</u>	<u>26,209</u>	<u>224,989</u>
Net profit for the period	<u>5,648,859</u>	<u>2,018,312</u>	<u>309,317</u>	<u>1,190,767</u>	<u>9,167,255</u>	<u>8,233,373</u>	<u>725,530</u>	<u>208,352</u>	<u>9,167,255</u>
As at 31 December 2017									
Segment total assets	<u>450,441,539</u>	<u>106,156,609</u>	<u>13,606,508</u>	<u>126,839,637</u>	<u>697,044,293</u>	<u>538,512,342</u>	<u>156,465,447</u>	<u>23,406,626</u>	<u>718,384,415</u>
Inter segment balances					(28,075,998)				(49,416,120)
Total assets					<u>668,968,295</u>				<u>668,968,295</u>
Segment total liabilities	<u>438,610,883</u>	<u>100,270,288</u>	<u>6,170,495</u>	<u>49,783,214</u>	<u>594,834,880</u>	<u>451,819,450</u>	<u>144,661,282</u>	<u>19,694,270</u>	<u>616,175,002</u>
Inter segment balances					(28,075,998)				(49,416,120)
Total liabilities					<u>566,758,882</u>				<u>566,758,882</u>

Notes to the consolidated financial statements (continued)

41 Earnings per share

Earnings per share is calculated by dividing the net profit for the period after deduction of Tier 1 capital notes payment by the weighted average number of ordinary shares in issue during the period as set out below:

	2018	2017
Basic earnings per share:		
Net profit for the year (AED'000)	12,010,820	9,132,648
Less: payment on Tier 1 capital notes (AED'000)	(495,047)	(381,089)
Net profit after payment of Tier 1 capital notes (AED'000)	<u>11,515,773</u>	<u>8,751,559</u>
Weighted average number of ordinary shares:		
Number of shares issued / deemed to be outstanding from the beginning of the period ('000)	10,855,112	5,643,000
Weighted average number of shares deemed to be issued on reverse acquisition ('000)	-	3,923,620
Weighted average number of shares exercised under the share options scheme ('000)	8,399	3,473
Weighted average number of ordinary shares ('000)	<u>10,863,511</u>	<u>9,570,093</u>
Basic earnings per share (AED)	<u>1.06</u>	<u>0.91</u>
Diluted earnings per share:		
Net profit after payment of Tier 1 capital notes (AED'000)	11,515,773	8,751,559
Add: Interest on convertible note (AED'000)	18,801	25,683
Net profit for the year for calculating diluted earnings per share (AED'000)	<u>11,534,574</u>	<u>8,777,242</u>
Weighted average number of ordinary shares ('000)	10,863,511	9,570,093
Effect of dilutive potential ordinary shares issued ('000)	28,606	97,861
Weighted average number of dilutive shares under share options scheme ('000)	10,468	5,125
Weighted average number of ordinary shares in issue for diluted earnings per share ('000)	<u>10,902,585</u>	<u>9,673,079</u>
Diluted earnings per share (AED)	<u>1.06</u>	<u>0.91</u>

Notes to the consolidated financial statements (continued)

42 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholder, directors and key management personnel of the Group. Key management personnel comprise those executive committee members "EXCO" of the Group who are involved in the strategic planning and decision making of the Group. The terms of these transactions are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

	2018			2017
	Senior management and related entities AED'000	Major shareholders AED'000	Total AED'000	Total AED'000

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

Financial assets	<u>2,054,296</u>	<u>11,003,008</u>	<u>13,057,304</u>	<u>12,875,875</u>
Financial liabilities	<u>9,770,117</u>	<u>7,026,995</u>	<u>16,797,112</u>	<u>16,664,072</u>
Contingent liabilities	<u>1,839,901</u>	<u>19,686,726</u>	<u>21,526,627</u>	<u>13,392,898</u>

Transactions carried out during the year ended with related parties are shown below:

	2018			2017
Interest income	<u>91,863</u>	<u>398,410</u>	<u>490,273</u>	<u>301,388</u>
Interest expense	<u>406,519</u>	<u>137,901</u>	<u>544,420</u>	<u>224,799</u>

43 Business Combination

On 7 December 2016, the shareholders of First Gulf Bank ("FGB") and National Bank of Abu Dhabi ("NBAD") approved the merger of FGB and NBAD. The merger was effected through a share-swap transaction at an exchange ratio of 1.254 NBAD shares for every one share of FGB. The merger is accounted for as a reverse acquisition.

FGB shares were delisted from the Abu Dhabi Securities Exchange and NBAD issued 5,643 million new shares to the shareholders of FGB. Following the completion of the merger, FGB shareholders owned approximately 52 percent of the combined bank and NBAD shareholders owned approximately 48 percent.

The merger transaction is accounted for in accordance with IFRS 3 - Business Combinations. IFRS 3 requires that an acquirer be identified in any business combination and acquisition accounting principles be applied. FGB was identified as the "accounting acquirer" in this transaction. The principles of reverse acquisition were used to reflect the acquisition of NBAD by FGB, effective 1 April 2017.

The merger was effected to create a new Bank with the financial strength, expertise and global network to accelerate growth in the UAE economy and drive the country's international business relationships.

Notes to the consolidated financial statements (continued)

43 Business Combination (continued)

a. Purchase consideration

The purchase consideration is determined to be AED 53,572 million, calculated on the basis of FGB's closing share price of AED 12.90 per share on Abu Dhabi Securities Exchange on 30 March 2017.

The consideration is computed as follows:

Outstanding shares of FGB (units'000)	4,500,000
Divided by: FGB shareholder's percentage ownership in the Group	52.01%
Total number of shares of the Group (units'000)	8,652,881
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Multiplied by: NBAD shareholder's percentage ownership in the Group	47.99%
Number of shares issued by FGB to NBAD's shareholders (units'000)	4,152,881
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Multiplied by: Share price of FGB on transaction date	12.90
Total consideration (AED'000)	53,572,167
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b. Integration related costs

The Group incurred Integration-related costs of AED 295 million (2017: AED 473 million) relating to consultant and external legal fees and due diligence costs. These costs have been included in 'General, administrative and other operating expenses' in the consolidated statement of profit or loss.

c. Identifiable assets acquired and liabilities assumed

The following table summarises the fair value of assets acquired and liabilities assumed on the date of acquisition.

	31 Mar 2017 AED'000
Assets	
Cash and balances with central banks	112,819,619
Investments at fair value through profit or loss	16,077,659
Due from banks and financial institutions	9,356,896
Reverse repurchase agreements	17,876,372
Derivative financial instruments	9,290,077
Loans and advances	207,807,269
Non-trading investments	47,105,716
Other assets	8,917,134
Investment properties	45,106
Property and equipment	1,841,308
Intangible assets – Customer relationships	1,604,716
Intangible assets – Core deposits	583,335
Intangible assets – License	368,700
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Total assets	433,693,907
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Notes to the consolidated financial statements (continued)

43 Business Combination (continued)

d. Identifiable assets acquired and liabilities assumed (continued)

	31 Mar 2017 AED'000
Liabilities	
Due to banks and financial institutions	40,983,859
Repurchase agreements	6,600,187
Commercial paper	11,976,634
Derivative financial instruments	11,727,613
Customer accounts and other deposits	272,994,885
Term borrowings	31,308,591
Other liabilities	14,399,305
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	389,991,074
Subordinated notes	365,234
Tier 1 capital notes	6,754,750
Share option scheme	235,798
Convertible notes - equity component	108,265
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Total liabilities	397,455,121
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NBAD net assets as at acquisition date attributable to its common equity holders	36,238,786
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e. Goodwill and Intangibles

The Group has assumed the carrying value of NBAD's financial assets and liabilities as at 31 March 2017 to be equal to their fair value for the purpose of calculating goodwill:

	AED'000
Total consideration	53,572,167
NBAD net assets value	(36,238,786)
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Goodwill	17,333,381
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The Group has completed a comprehensive purchase price allocation within twelve months from the acquisition date and following items are covered:

- valuation of intangible assets including core deposits, license and other customer relationships;
- valuation of properties and equipment;
- valuation adjustments on other recognised financial and non-financial assets and liabilities; and
- initial adjustments to fair value of loans and advances.

The goodwill is attributable mainly to the synergies expected to be achieved from integrating NBAD into the Group.

f. Impact on Group's results

If the acquisition had occurred on 1 January 2017, management estimate that consolidated operating income and profit would be AED 19,533 million and AED 10,915 million respectively for the period 1 January 2017 till 31 December 2017.

Notes to the consolidated financial statements (continued)

44 Change in accounting policy

Prior to the merger between FGB and NBAD, both banks maintained accounting records and prepared financial statements in accordance with IFRS and complied with the regulations of CBUAE. In order to facilitate compliance each bank had in place their own set of accounting policies.

Following the merger, FAB's management embarked on a journey to harmonise these accounting policies in order to determine a common set of accounting policies to be adopted by FAB. Following were the three key accounting policies which were harmonised:

- **Harmonisation of the rating scales** - the Customer Risk Rating ('CRR') scales of NBAD and FGB have been harmonised to create one set of CRR scales to be followed by FAB. Key driver for the harmonisation of the policy is to provide the users of the financial statements with more reliable and consistent financial information. No new information was used in determining the revised rating scales and for the adjustment calculated as result of the harmonisation of this policy.
- **Fair valuation adjustments** – accounting policies in relation to fair valuation adjustments, for instance bid-offer reserves, were harmonised for the combined bank. Accounting standards permits entities to use a choice of pricing conventions or practical expedients in order to determine fair value of instruments. The Group has harmonised fair valuation adjustments to ensure the pricing conventions used by the Group provide more reliable approximation of the exit price for the securities held.
- **Recognition of fees income** – the Group has harmonised the combined Bank's accounting policies in order to consistently determine the fees which are recognised upfront or amortised over the life of the Loans and Advances and other financial products provided by the Bank.

Changes in accounting policies have been accounted for retrospectively through an adjustment of opening retained earnings.

45 Fiduciary activities

The Group held assets under management in trust or in a fiduciary capacity for its customers at 31 December 2018 amounting to AED 7,667.91 million (2017: 7,782.85 million). Furthermore, the Group provides custodian services for some of its customers.

The underlying assets held in a custodial or fiduciary capacity are excluded from these consolidated financial statements of the Group.

46 Special Purpose Entities

The Group has created Special Purpose Entities (SPEs) with defined objectives to carry on fund management and investment activities on behalf of customers. The equity and investments managed by the SPEs are not controlled by the Group and the Group does not obtain benefits from the SPEs' operations, apart from commissions and fee income. In addition, the Group does not provide any guarantees or assume any liabilities of these entities. Consequently, the SPEs' assets, liabilities and results of operations are not included in these consolidated financial statements of the Group. The SPEs are as follows:

Legal name	Activities	Country of incorporation	Holding 2018
One share PLC	Investment Company	Republic of Ireland	100%
NBAD Private Equity 1	Fund Management	Cayman Island	58%
NBAD (Cayman) Limited	Fund Management	Cayman Island	100%

47 Comparative figures

In addition to the changes in the accounting policy impact highlighted in Note 44, certain comparative figures have been reclassified where appropriate to conform to the presentation adopted in these consolidated financial statements.

Notes to the consolidated financial statements *(continued)*

48 Other disclosures

As at 31 December 2018, exposure of the Group in Abraaj Holdings amounted to AED 81 million. This exposure is fully collateralized by charge over interest in Abraaj Private Equity Fund IV, The Infrastructure and Growth Capital Fund and Perfect Holding Limited.