EMIRATES NBD BANK PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

These Audited Preliminary Financial Statements are subject to Central Bank of UAE Approval and adoption by Shareholders at the Annual General Meeting

EMIRATES NBD BANK PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

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Ernst & Young
P.O. Box 9267
28th Floor, Al Saqr Business Tower
Sheikh Zayed Road
Dubai, United Arab Emirates

Tel: +971 4 332 4000
Fax: +971 4 332 4004
dubai@ae.ey.com
ey.com/mena

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES NBD BANK PJSC

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Emirates NBD Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES NBD BANK PJSC (continued)

(a) Impairment of loans and advances

Due to the inherently judgmental nature of the computation of impairment provisions for loans and advances and Islamic financing receivables, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances is estimated by management through the application of judgment and the use of subjective assumptions. Due to the significance of loans and advances and Islamic financing receivables and related estimation uncertainty, this is considered a key audit risk. The corporate loan portfolio generally comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on management's knowledge of each individual borrower. However, consumer loans generally comprises much smaller value loans to a much greater number of customers. Provisions are not calculated on an individual basis, but are determined by grouping by product into homogeneous portfolios. The portfolios are then monitored through delinquency statistics, which drive the assessment of loan loss provision. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from collective models, are unsecured or are subject to potential collateral shortfalls.

The risks outlined above were addressed by us as follows:

- For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans.

- For consumer customers, the impairment process is based on projecting losses based on prior historical payment performance of each portfolio, adjusted for current market conditions. We have tested the accuracy of key data from the portfolio used in the models and re-performed key provision calculations.

- We compared the Group's assumptions for collective impairment allowances to externally available industry, financial and economic data. As part of this, we critically assessed the Group's estimates and assumptions, specifically in respect to the inputs to the impairment models and the consistency of judgement applied in the use of economic factors, loss emergence periods and the observation period for historical default rates. We have made use of specialists to assess the appropriateness of the collective impairment calculation methodology.

(b) Impairment of goodwill

Goodwill impairment testing of cash generating units ('CGUs') relies on estimates of value-in-use based on estimated future cash flows. Due to the uncertainty of forecasting and discounting future cash flows, this is deemed significant risk.

We assessed the reasonableness of cash flow projections and compared key inputs, such as discount rates and growth rates, to externally available industry, economic and financial data and the Group's own historical data and performance. We used our own specialists to test the assumptions used in impairment testing of goodwill.

(c) Concentration to related party balances

Under IFRS 7 Financial Instruments: Disclosures, specific disclosures are required for each type of risk arising from financial instruments. These include qualitative disclosures around how exposures arise and how they are measured and managed, summary quantitative data about an entity's exposure to each type of risk, and information about an entity's credit risk exposure, including significant credit risk concentrations ("concentration risk"). In addition, for government-controlled entities such as Emirates NBD Bank PJSC, disclosure is required under IAS 24 Related Party Disclosures of a qualitative or quantitative indication of the extent of transactions with the government or related entities.

Note 39 to the consolidated financial statements, Related Party Transactions, describes group exposure to the majority shareholder of the parent, the Investment Corporation of Dubai. Significant management judgment is involved in determining the disclosures required by IFRS 7 and IAS 24 to address the concentration and related risks and related party disclosures arising from this balance and the income arising from it. As such, we consider this to be a key audit matter.

To audit the balances due from the related parties and the related income, we performed a combination of tests of controls, analytical review procedures and specific substantive audit procedures to test related parties and transactions. Key controls in the loan and overdraft granting, booking and monitoring processes were identified, documented and tested. Balances were confirmed by the borrower. The calculation of income was re-performed on a sample basis to determine whether it had been recognized in accordance with International Financial Reporting Standards. We reviewed minutes of meetings of management, the Board of Directors and shareholders, and compared identified related party transactions with those identified by management. We assessed the adequacy of these disclosures by assessing whether a reasonable user of the consolidated financial statements could understand the exposure of the Bank to concentration and related risks, and by considering the ability of such a user to reasonably estimate the extent of transactions with the majority shareholder of the parent, including the income arising from the balance due from them, based on the disclosures provided.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES NBD BANK PJSC (continued)

Other information

Management is responsible for the other information. Other information consists of the information included in the Group's 2017 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2017 Annual Report after the date of our auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association and 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.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES NBD BANK PJSC (continued)

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

- 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.

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

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

Report on other legal and regulatory requirements

Further, as required by UAE Federal Law No. (2) of 2015, we report that:

- the Group has maintained proper books of account;

- we have obtained all the information and explanations we considered necessary for the purposes of our audit;

- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015;

- the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES NBD BANK PJSC (continued)

Further, as required by UAE Federal Law No. (2) of 2015, we report that: (continued)

- investments in shares and stocks during the year ended 31 December 2017 are disclosed in note 6 and 7 to the consolidated financial statements;
- note 39 reflects the disclosures relating to related party transactions and the terms under which they were conducted;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2017, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2017; and
- note 48 reflects the social contributions made during the year.

For Ernst & Young

Signed by:
Joseph Alexander Murphy
Partner
Registration number: 492

15 January 2018

Dubai, United Arab Emirates

	Notes	2017 AED 000	2016 AED 000
ASSETS			
Cash and deposits with Central Bank	4	71,852,618	57,214,660
Due from banks	5	49,726,135	57,082,148
Trading securities	6	3,555,297	1,575,279
Investment securities	7	15,492,945	13,573,622
Loans and receivables	8	257,604,666	242,612,617
Islamic financing receivables	10	46,487,948	47,783,692
Investments in associates and joint ventures	11	1,624,330	1,680,362
Positive fair value of derivatives	34	2,851,520	3,153,972
Investment properties		537,680	553,812
Customer acceptances	38	6,111,947	6,941,585
Property and equipment		2,442,833	2,397,196
Goodwill and intangibles	12	5,688,203	5,827,150
Other assets	13	6,396,161	7,607,917
TOTAL ASSETS		**470,372,283**	**448,004,012**
LIABILITIES			
Due to banks	14	21,311,193	18,902,477
Customer deposits	15	265,712,916	254,698,202
Islamic customer deposits	16	60,815,385	56,054,237
Debt issued and other borrowed funds	17	39,788,848	38,695,734
Sukuk payable	18	5,526,649	7,368,138
Negative fair value of derivatives	34	2,252,495	2,824,708
Customer acceptances	38	6,111,947	6,941,585
Other liabilities	19	9,491,313	8,658,013
TOTAL LIABILITIES		**411,010,746**	**394,143,094**
EQUITY			
Issued capital	20	5,557,775	5,557,775
Treasury shares		(46,175)	(46,175)
Tier I capital notes	21	9,477,076	9,477,076
Share premium reserve	20	12,270,124	12,270,124
Legal and statutory reserve	22	2,778,888	2,778,888
Other reserves	22	2,869,533	2,869,533
Fair value reserve	22	261,568	110,791
Currency translation reserve	22	(1,219,088)	(1,103,009)
Retained earnings		27,403,808	21,938,659
TOTAL EQUITY ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP		**59,353,509**	**53,853,662**
Non-controlling interest		8,028	7,256
TOTAL EQUITY		**59,361,537**	**53,860,918**
TOTAL LIABILITIES AND EQUITY		**470,372,283**	**448,004,012**

The attached notes 1 to 48 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

Chairman

Vice Chairman

15 JAN 2018

Chief Executive Officer

GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 AED 000	2016 AED 000
Interest and similar income	23	13,573,947	12,397,749
Interest and similar expense	23	(4,615,211)	(3,882,240)
Net interest income		**8,958,736**	**8,515,509**
Income from Islamic financing and investment products	24	2,632,045	2,547,068
Distribution on Islamic deposits and profit paid to Sukuk holders	25	(804,821)	(951,482)
Net income from Islamic financing and investment products		**1,827,224**	**1,595,586**
Net interest income and income from Islamic financing and investment products net of distribution to depositors		**10,785,960**	**10,111,095**
Fee and commission income		3,938,309	3,747,262
Fee and commission expense		(981,346)	(885,881)
Net fee and commission income	26	**2,956,963**	**2,861,381**
Net gain /(loss) on trading securities	27	142,917	165,277
Other operating income	28	1,569,320	1,610,215
Total operating income		**15,455,160**	**14,747,968**
General and administrative expenses	29	(4,844,229)	(4,887,687)
Operating profit before impairment		**10,610,931**	**9,860,281**
Net impairment loss on financial assets	30	(2,228,517)	(2,607,935)
Operating profit after impairment		**8,382,414**	**7,252,346**
Share of profit / (loss) of associates and joint ventures		72,167	135,138
Group profit for the year before tax		**8,454,581**	**7,387,484**
Taxation charge	32	(108,785)	(148,321)
Group profit for the year after tax		**8,345,796**	**7,239,163**
Attributable to:			
Equity holders of the Group		8,345,024	7,239,047
Non-controlling interest		772	116
Group profit for the year after tax		**8,345,796**	**7,239,163**
Earnings per share	33	**1.40**	**1.20**

The attached notes 1 to 48 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 AED 000	2016 AED 000
Group profit for the year after tax	8,345,796	7,239,163
Items that may not be reclassified subsequently to Income statement:		
Actuarial gains / (losses) on retirement benefit obligations	13,868	-
Items that may be reclassified subsequently to Income statement:		
Other comprehensive income		
Cash flow hedges:		
- Effective portion of changes in fair value	294,302	33,485
Fair value reserve (available-for-sale financial assets):		
- Net change in fair value	62,911	(180,359)
- Net amount transferred to income statement	(206,436)	(218,710)
Currency translation reserve	(106,920)	(895,598)
Hedge of a net investment in foreign operations	(9,159)	-
Other comprehensive income for the year	48,566	(1,261,182)
Total comprehensive income for the year	**8,394,362**	**5,977,981**
Attributable to:		
Equity holders of the Bank	8,393,590	5,977,865
Non-controlling interest	772	116
Total comprehensive income for the year	**8,394,362**	**5,977,981**

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GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 AED 000	2016 AED 000
OPERATING ACTIVITIES			
Group profit before tax for the year		8,454,581	7,387,484
Adjustments for non cash items	42	2,741,672	2,820,939
Operating profit before changes in operating assets and liabilities		**11,196,253**	**10,208,423**
(Increase)/decrease in statutory deposits		(2,505,361)	915,929
(Increase)/decrease in certificate of deposits with Central Bank maturing after three months		(3,901,118)	(2,917,975)
(Increase)/decrease in amounts due from banks maturing after three months		1,767,024	(5,723,480)
Increase/(decrease) in amounts due to banks maturing after three months		(349,054)	(123,324)
(Increase)/decrease in other assets		2,095,539	(4,568,721)
Increase/(decrease) in other liabilities		(4,315)	2,904,227
(Increase)/decrease in positive fair value of derivatives		613,271	(466,976)
Increase/(decrease) in negative fair value of derivatives		(588,731)	230,072
Increase/(decrease) in customer deposits		11,014,714	30,312,989
Increase/(decrease) in Islamic customer deposits		4,761,148	(6,792,455)
(Increase)/decrease in trading securities		(1,989,705)	101,898
(Increase)/decrease in loans and receivables		(16,696,496)	(17,397,597)
(Increase)/decrease in Islamic financing receivables		720,817	(4,921,626)
		6,133,986	**1,761,384**
Taxes paid		(100,808)	(182,171)
Net cash flows from/(used in) operating activities		**6,033,178**	**1,579,213**
INVESTING ACTIVITIES			
(Increase)/decrease in investment securities		(2,174,142)	1,821,125
(Increase)/decrease in investments in associates and joint ventures		128,113	52,152
Disposal of Investment Properties		-	326,800
Addition of property and equipment		(653,683)	(805,791)
Disposal of property and equipment		257,514	480,144
Net cash flows from/(used in) investing activities		**(2,442,198)**	**1,874,430**
FINANCING ACTIVITIES			
Issuance of debt issued and other borrowed funds		10,394,762	16,709,587
Repayment of debt issued and other borrowed funds		(9,445,340)	(9,243,619)
Issuance of sukuk borrowing		-	3,696,948
Repayment of sukuk borrowing		(1,836,250)	-
Interest on Tier I capital notes		(589,813)	(590,530)
Dividends paid		(2,220,749)	(2,220,749)
Net cash flows from/(used in) financing activities		**(3,697,390)**	**8,351,637**
Increase/(decrease) in cash and cash equivalents (refer Note 42)		**(106,410)**	**11,805,280**

The attached notes 1 to 48 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP											
	Issued capital (a)	**Treasury shares**	**Tier I capital notes (b)**	**Share premium reserve (a)**	**Legal and statutory reserve (c)**	**Other reserves (c)**	**Fair value reserve (c)**	**Currency translation reserve (c)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Group Total**
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2017	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	110,791	(1,103,009)	21,938,659	53,853,662	7,256	53,860,918
Profit for the year	-	-	-	-	-	-	-	-	8,345,024	8,345,024	772	8,345,796
Other comprehensive income for the year	-	-	-	-	-	-	150,777	(116,079)	13,868	48,566	-	48,566
Interest on Tier 1 capital notes	-	-	-	-	-	-	-	-	(589,813)	(589,813)	-	(589,813)
Increase in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	(2,220,749)	(2,220,749)	-	(2,220,749)
Directors' fees (refer note 31)	-	-	-	-	-	-	-	-	(31,000)	(31,000)	-	(31,000)
Zakat	-	-	-	-	-	-	-	-	(52,181)	(52,181)	-	(52,181)
Balance as at 31 December 2017	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	261,568	(1,219,088)	27,403,808	59,353,509	8,028	59,361,537

In accordance with the Ministry of Economy interpretation, Directors' fees have been treated as an appropriation from equity.

The attached notes 1 to 48 form an integral part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

Notes:

(a) For further details refer to Note 20

(b) For further details refer to Note 21

(c) For further details refer to Note 22

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP											
	Issued capital (a)	**Treasury shares**	**Tier I capital notes (b)**	**Share premium reserve (a)**	**Legal and statutory reserve (c)**	**Other reserves (c)**	**Fair value reserve (c)**	**Currency translation reserve (c)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Group Total**
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2016	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	476,375	(207,411)	17,566,680	50,742,865	5,662	50,748,527
Profit for the year	-	-	-	-	-	-	-	-	7,239,047	7,239,047	116	7,239,163
Other comprehensive income for the year	-	-	-	-	-	-	(365,584)	(895,598)	-	(1,261,182)	-	(1,261,182)
Interest on Tier 1 capital notes	-	-	-	-	-	-	-	-	(590,530)	(590,530)	-	(590,530)
Increase in non-controlling interest	-	-	-	-	-	-	-	-	-	-	1,478	1,478
Dividends paid	-	-	-	-	-	-	-	-	(2,220,749)	(2,220,749)	-	(2,220,749)
Directors' fees (refer note 31)	-	-	-	-	-	-	-	-	(20,650)	(20,650)	-	(20,650)
Zakat	-	-	-	-	-	-	-	-	(35,139)	(35,139)	-	(35,139)
Balance as at 31 December 2016	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	110,791	(1,103,009)	21,938,659	53,853,662	7,256	53,860,918

In accordance with the Ministry of Economy interpretation, Directors' fees have been treated as an appropriation from equity.

The attached notes 1 to 48 form an integral part of these Group consolidated financial statements.

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Notes:

(a) For further details refer to Note 20

(b) For further details refer to Note 21

(c) For further details refer to Note 22

1 CORPORATE INFORMATION

Emirates NBD Bank PJSC (the "Bank") was incorporated in the United Arab Emirates on 16 July 2007 consequent to the merger between Emirates Bank International PJSC ("EBI") and National Bank of Dubai PJSC ("NBD"), under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984.

The consolidated financial statements for the year ended 31 December 2017 comprise the financial statements of the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

The Bank is listed on the Dubai Financial Market (TICKER: "EMIRATESNBD"). The Group's principal business activities are corporate banking, consumer banking, treasury and Islamic banking. The Bank's website is www.emiratesnbd.com. For details of activities of subsidiaries, refer to Note 36.

The registered address of the Bank is Post Box 777, Dubai, United Arab Emirates ("UAE").

The parent company of the Group is Investment Corporation of Dubai, a company in which the Government of Dubai is the majority shareholder.

2 BASIS OF PREPARATION

(a) Statement of compliance:

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

The principal accounting policies adopted in the preparation of the Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These Group consolidated financial statements were approved for issue by the Board of Directors on 15 January 2018.

(b) Basis of measurement:

The Group consolidated financial statements have been prepared under the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments classified as trading and at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value; and
- recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged.

2 BASIS OF PREPARATION (continued)

(b) Basis of measurement (continued):

The presentation currency of the consolidated financial statements is the United Arab Emirates Dirham (AED). The functional currency for a significant proportion of the Group's assets, liabilities, income and expenses is also AED. However, certain subsidiaries have functional currencies other than AED and the AED is the presentation currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in Note 3 (a).

(c) Principles of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The list of the Group's subsidiary companies is shown in Note 36.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Bank with the exception of Emirates Financial Services PSC, an insignificant subsidiary, whose year end is 31 March and hence the Group uses their reviewed 12 months accounts as at 31 December. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(a) Subsidiaries (continued)

Basis of consolidation (continued)

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

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.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 in profit or loss. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are restated to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group’s previously held equity interest in the acquiree (if any), over the net fair value of the acquiree’s identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 3. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Upon the loss of control, the Group 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 profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group’s accounting policy for financial instruments depending on the level of influence retained.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(b) Special Purpose Entities

Special Purpose Entities (SPEs) are entities that are created to accomplish a well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if the Group is exposed to variable returns from its involvement in the SPE and has the ability to affect those returns through its power over the SPE based on an evaluation of the substance of its relationship with the Group.

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

a. the Group has power over the SPE;
b. the Group has exposure to, or rights, to variable returns from its involvement with the SPE; and
c. the Group has the ability to use its power over the SPE to affect the amount of the Group's returns.

The assessment of whether the Group has control over an SPE is carried out at inception and reassessed at each period end date.

Information about the Group's securitisation activities is set out in Note 9.

(c) Fund Management

The Group manages and administers funds on behalf of investors. The financial statements of these funds are not included in these consolidated financial statements. Information about the Group's fund management activity is set out in Note 44.

(d) Fiduciary activities

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 (refer Note 45).

(e) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Bank and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Bank.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(e) Transactions with non-controlling interests (continued)

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

(f) Joint Ventures

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The consolidated financial statements include the Group's share of the total recognised gains and losses of its jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported as nil and recognition of losses is discontinued except to the extent of the Group's commitment (if any).

The carrying amounts of the jointly controlled entities are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount is estimated and an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The impairment loss is charged to income statement.

Upon loss of joint control, the Group measures any retained investment at its fair value. Any difference between the carrying amount of the former joint venture entity upon loss of joint venture control and the aggregate of the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

(g) Associates

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

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

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(g) Associates (continued)

Under the equity method, the investment in associate is measured in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate.

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

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

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the profit or loss.

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

Upon loss of significant influence over the associate, the Group measures any retained investment at its fair value.

Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Use of estimates and judgements

The preparation of the Group consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Significant items where the use of estimates and judgments are required are outlined below:

(i) Allowances for impairment of loans and receivables and Islamic financing receivables

The Group reviews its loans and receivables portfolio and Islamic financing receivables to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a loan or homogenous group of loans or Islamic financing receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

In addition to specific allowance against individually significant loans and receivables and Islamic financing receivables, the Group also makes a collective impairment allowance to recognise that at any reporting date, there will be an amount of loans and receivables and Islamic financing receivables which are impaired even though a specific trigger point for recognition of the loss has not yet been evidenced (known as the “emergence period’).

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values. The judgments include consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

(iii) Impairment of available-for-sale investment securities

The Group determines the impairment of available-for-sale equity securities when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates several market and non-market factors.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Use of estimates and judgements (continued)

(iv) Impairment of goodwill

On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(v) Impairment loss on investment in associates and jointly controlled entities

Management reviews its share of investments in associates and jointly controlled entities to assess impairment on a regular basis. In determining the assessment, management compares the recoverable amount with the carrying value of the investment. Estimating recoverable amount using value in use requires the Group to make an estimate of the expected future cash flows from the associates and jointly controlled entities and choosing a suitable discount rate in order to calculate the present value of those cash flows.

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(vi) 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 matters is not predictable with assurance.

(b) 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 in the principal market at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments

(i) Classification

Financial assets:

- Trading securities:

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.

Trading securities are initially recorded at fair value. Gains and losses arising from changes in fair values are included in the consolidated income statement in the year in which they arise. Interest earned and dividends received are included in interest income and other operating income respectively.

- Investment securities:

(1) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets, with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These assets are debt instruments.

Held-to-maturity (“HTM”) investments are carried at amortised cost (less impairment, if any).

Sale of HTM assets is allowed only under the following circumstances:

- The investment is close enough to maturity as to have no impact on fair value;
- The principal is substantially received;
- Isolated events beyond the Group’s control;
- Significant credit deterioration;
- Major business combination or disposal; or
- Increase in regulatory capital requirements.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(i) Classification (continued)

(2) Available-for-sale

Available-for-sale assets are financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity. Available-for-sale assets include certain debt and equity investments. These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale (AFS) financial assets may be freely sold or hedged. The differences between cost and fair value is taken to the Consolidated Statement of Other Comprehensive Income and recognised as a separate component in the statement of financial position, except in the case of impairment where the cumulative loss is taken to the income statement. When the financial asset is sold, the full quantum of the difference between the fair value and cost, posted previously to the Consolidated Statement of Other Comprehensive Income, is transferred to the income statement.

(3) Designated at fair value through profit or loss

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

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

- Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost (less impairment) and include:

- Originated loans and syndicated loans funded on origination; and
- Other debt securities acquired (purchased) by the Group either from the issuer or another source, provided that they are not quoted in an active market.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(i) Classification (continued)

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.

- Held for trading

  The Group classifies financial liabilities as held for trading when they have issued primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short-term profit taking.

  Gains and losses arising from changes in fair values are included in the consolidated income statement in the year in which they arise.

- Debt issued and other borrowed funds:

  Financial instruments issued by the Group that are not held for trading or designated at FVPL, are classified as liabilities under Debt issued and other borrowed funds, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

  Debt issued and other borrowings are subsequently measured at amortised cost using the EIR.

(ii) Recognition

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

All sales and purchases of financial assets and liabilities and resultant gains and losses are recognised and derecognised on the trade date (the date that the Bank becomes a party to the contractual provisions of the instrument).

(iii) Reclassification

Reclassification of financial assets is done at the election of management, and is determined on an instrument-by-instrument basis.

For financial assets reclassified out of the available-for-sale category, any previous gain or loss recognised in equity is amortised to profit or loss over the remaining life of the asset, using the Effective Interest Rate ("EIR"). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

Reclassification of non derivative financial assets out of held for trading category are recorded at the fair value at the date of reclassification and this fair value becomes the new cost or amortised cost, as the case maybe. Any gains or losses previously recognized in profit or loss are not reversed.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(iv) Derecognition

Financial assets

The Group derecognises financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial assets are transferred. Any interest in derecognised financial assets 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 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. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending, repurchase transactions and asset-backed securitisations.

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 repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

Financial liabilities

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

(v) Measurement

A financial asset or a financial liability is recognised initially at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost, including transaction costs, less impairment allowances.

All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

(vi) Embedded derivatives

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(vii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

(viii) Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the Consolidated Statement of Other Comprehensive Income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in the Consolidated Statement of Other Comprehensive Income is recognized in the Income Statement.

(ix) Impairment

Impairment of loans and advances

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment allowance accounts.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(ix) Impairment (continued)

Individually assessed loans and advances

For all loans that are considered individually significant, the Group assesses on a case-by-case basis each quarter and more frequently when circumstances require whether there is any objective evidence of impairment. The criteria used by the Group to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- decline in the realisable value of the security;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- the Group's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency; and
- when available, the secondary market price of the debt.

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(ix) Impairment (continued)

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

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

Incurred but not yet identified impairment (Corporate loans)

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the balance sheet date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- management’s experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio.

Homogeneous groups of loans and advances (Consumer loans)

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant, because individual loan assessment is impracticable.

Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

Write-off of loans and advances

Loans (and the related impairment allowance) are normally written off, in full, when there is no realistic prospect of recovery. Where loans are secured, this is after receipt of any proceeds from the realisation of security, if any.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(ix) Impairment (continued)

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

Impairment of Available for sale securities

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

Reversals of impairment

Once an impairment loss has been recognised on an available for- sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

Available-for-sale debt securities

A subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value.

Available-for-sale equity securities

Subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Customer loyalty programme

The Group operates a rewards programme which allows customers to accumulate points when they purchase products on the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being obtained. While some aspects of the programme are administered in-house, third party providers are used for certain other aspects of the programme.

In the case of the in-house administered aspects, the sale proceeds received are allocated between the products sold and the points issued. The proceeds allocated to the points are equal to their fair value. Fair value is determined by applying statistical techniques. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed.

For aspects where third party providers are used, the consideration allocated to the awards credits collected on behalf of the third party are charged to the income statement at the time of supplying the rewards.

(e) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease.

(f) Revenue recognition

Interest and similar income and expense are recognised in the consolidated income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Interest and similar income and expense presented in the consolidated income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest basis;
- interest on available-for-sale investment securities on an effective interest basis; and
- interest on held for trading securities on an effective interest basis.

Fee income is earned from a diverse range of services provided by the Group to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition (continued)

- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and

- 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 (for example, certain loan commitment fees) and recorded in 'Interest income'.

Other fees and commission income and expense are recognised as the related services are performed or received. Dividend income is recognised when the Group's right to receive the dividend is established.

(g) Foreign currencies

Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. The resulting gain / loss on Monetary items is taken to the 'Other operating income' in the Income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the Group consolidated financial statements, assets and liabilities in foreign operations are translated into UAE Dirhams at rates of exchange ruling at the reporting date, and the resulting gains and losses are taken to the Group consolidated translation reserve.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the exchange rate at the reporting date.

Forward exchange contracts are valued at market rates applicable to their respective maturities.

Exchange differences arising from the translation of the net investment in overseas operations are taken directly to currency translation reserve.

(h) Property, equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and fixed assets not commissioned are not depreciated. The estimated useful life of fixed assets for the Group is as follows:

Freehold premises	25 - 60 years
Freehold improvements	10 years
Leasehold improvements	7 years
Furniture, fixtures and office equipment	5 years
Computer hardware and software	4 - 5 years
Core banking software	5 - 7 years
Motor vehicles	3 - 5 years

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, equipment and depreciation (continued)

Assets are depreciated on a straight-line basis over their estimated useful lives as given above.

Fixed assets not commissioned are stated at cost. When commissioned, they are transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Group consolidated income statement.

(i) Inventory

Properties acquired in settlement of debt are held as inventory and are stated at lower of cost or net realisable value. Directly attributable costs incurred in the acquisition of inventory is included as part of cost of the inventory.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date.

(j) Income taxes and deferred taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be settled with the tax authorities.

Deferred tax is accounted for using the asset and liability method. Deferred tax assets and liabilities are recognised for the full tax consequences of all temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Recognition of deferred tax assets are, however, restricted to the extent that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured using tax rates that are expected to apply to the period in which the asset is expected to realise or the liability is expected to settle.

Deferred tax assets are reviewed at the end of each year to reduce the carrying amount by the extent to which it is no longer probable that sufficient taxable profits will be available to utilise the differences.

(k) Investment properties

The Group holds certain properties as investments to earn rental income, for capital appreciation, or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less depreciation and impairment (if any).

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 income statement in 'Other operating income' in the year of retirement or disposal.

Transfers to and from investment properties are made only when there is a change in use based on the business model.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. Loan commitments are irrevocable commitments to provide credit under pre specified terms and conditions.

Financial guarantees issued and commitments to provide credit are initially recognized in the Group financial statements at fair value.

(m) Employee benefits

(i) Pension obligations

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with the UAE Federal Law on Pensions and Social Security. Arrangements for benefits for overseas employees is made in accordance with local regulations and customs. Full provision is made for all accrued benefits.

The Group also pays contributions to trustee administered funds on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

(ii) Termination gratuity benefit scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year. The provision for gratuity is recorded through the income statement.

The present value of the gratuity obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions which include but are not limited to discount rate. Any actuarial gains or losses are recorded through other comprehensive income.

(n) Hedging instruments

Hedging instruments include futures, forwards, options and swaps in the interest rate and foreign exchange markets. The Group utilises these instruments to satisfy the requirements of its customers, for proprietary trading purposes and to hedge its own exposure to interest rates and currency risk.

Where there is a hedging relationship as defined by IAS 39 between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value, with any resultant gains and losses being accounted as set out below.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of financial instruments (refer Note 3 (a) (ii)).

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Hedging instruments (continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the exposure to changes in fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or
- Hedge of net investment in a foreign operation.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

(i) Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of derivative is recognised in other comprehensive income within ‘Cash flow hedges – fair value gains/(losses)’. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement.

The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting or the hedge designation is revoked, then hedge accounting is discontinued prospectively, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Hedging instruments (continued)

(iii) Net investment 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 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 income statement. The amount recognised in other comprehensive income is reclassified to the income statement as an adjustment on disposal of the foreign operation.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(o) Cash and cash equivalents

Cash and cash equivalents consist of cash, balances with the Central Bank of the UAE and balances with banks and financial institutions with an original maturity of three months or less, less balances due to banks and financial institutions with an original maturity of three months or less.

(p) Offsetting financial instruments

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

(q) Sale and repurchase agreements

Securities sold subject to repurchase agreements (‘repos’) are disclosed in the notes to the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell (‘reverse repos’) are recorded as loans and receivables to either banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(r) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Group consolidated income statement over the period of the borrowings using the effective interest method.

(s) Leases

The total payments made under operating leases, such as leases for premises, are charged to the Group consolidated income statement on a straight line basis over the period of the lease.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Islamic financing receivables

Islamic financing receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These products are carried at amortised cost less impairment.

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Group sells to a customer a commodity, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Istissna'a

An agreement between the Group and a customer whereby the Group would sell to the customer a developed property according to agreed upon specifications. The Group would develop the property either on its own or through a subcontractor and then hand it over to the customer on a fixed date at an agreed price.

Ijara

An agreement, whereby the Group (lessor) leases an asset to a customer (lessee), for a specific period and against certain rent installments. Ijara could end by transferring the ownership of the asset to the lessee at the end of the agreement or substantially all the risks and returns related to the ownership.

Mudaraba

An agreement between two parties; wherein one of them provides the funds and is called Rab-Ul-Mal and the other provides efforts and expertise and is called the Mudarib and he is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In case of normal loss; the Rab-Ul-Mal would bear the loss of his funds while the Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group may act as Mudarib when accepting funds from depositors and as Rab-Ul-Mal when investing such funds on a Mudaraba basis.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent 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 return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Islamic financing receivables (continued)

(ii) Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Murabaha

The profit is quantifiable and contractually determined at the commencement of the contract. Profit is recognised as it accrues over the life of the contract using an effective profit method on the balance outstanding.

Istissna'a

Istissna'a revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istissna'a cost) are accounted for on a time proportion basis.

Ijara

Income from Ijara is recognised on an accrual basis over the period of the contract.

Mudaraba

Income on Mudaraba financing is recognised on distribution by the Mudarib, whereas the losses are charged to income 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.

(u) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill on acquisitions

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, including intangibles, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the Group consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Intangible assets (continued)

(i) Goodwill (continued)

Measurement

Goodwill is initially measured at cost. Following 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 synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the income statement. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(ii) Capitalised software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. For estimated useful life of software, refer note 3(h).

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Intangible assets (continued)

(iii) Other intangible assets

Intangibles acquired separately are measured on initial recognition at cost. The cost of the intangibles acquired in a business combination is at fair value as at the date of acquisition. Following initial recognition, intangibles are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible asset are assessed to be either finite or indefinite. Intangibles with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and amortisation method for intangibles with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in an accounting estimate. The amortisation expense on intangibles with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangibles.

(v) Impairment of non financial assets

The carrying amounts of the Group's non-financial assets, other than investment properties and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group or units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Assets held for sale

Assets and liabilities are classified as held for sale if their carrying amount is to be primarily recovered through a sale transaction that is highly probable to complete within one year from the date of classification, rather than through continuing use. Such assets and liabilities are not netted. In the period where an asset or liability is recognised for the first time as held for sale, these assets and liabilities are shown separately on the face of the statement of financial position. However, the statement of financial position for the comparative prior period presented is not restated.

These assets and liabilities held for sale are measured at the lower of the carrying amount and fair value less cost to sell. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

(x) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries,

  (i) controls, is controlled by, or is under common control with, the Group;
  (ii) has an interest in the Group that gives it significant influence over the Group; or
  (iii) has joint control over the Group;

(b) the party is an associate;
(c) the party is a jointly-controlled entity;
(d) the party is a member of the key management personnel of the Group;
(e) the party is a close member of the family of any individual referred to in (a) or (d); or
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(y) Operating segments

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge.

The segment managers report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 35.

(z) 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.

(aa) Deposits, debts and sukuks issued

Deposits, debts and sukuks issued are the main sources of funding for the Group.

Deposits, debts and sukuks issued are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Dividend on shares

Dividends on shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders in the Annual General Meeting. Dividends approved after the year end are recognised as a liability in the subsequent period.

(ac) Provisions

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

(ad) New standards and interpretations effective 01 January 2017

The following new and revised IFRSs have been applied in the current period in these consolidated financial statements. Their adoption had no significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard	Description	Effective date (early adoption permitted)
IAS 7, "Statement of cash flows"	The amendments issued are as follows: (a) introduce additional disclosure requirements intended to address investors' concerns as currently they are not able to understand the management of an entity's financing activities; (b) require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes; (c) do not prescribe a specific format for disclosures but indicates that we can fulfil the requirement by providing a reconciliation between opening and closing balances for liabilities arising from financing activities; and (d) are also applicable to financial assets that hedge liabilities arising from financing activities.	1 January 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ae) New standards and interpretations effective after 01 January 2017

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017. These have, therefore, not been applied in preparing these consolidated financial statements. New standards, amendments to standards and interpretations which are relevant to the Group are as follows:

IFRS 15, 'Revenue from contracts with Customers'.	This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18,'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1 January 2018
Interpretation 22 – Foreign Currency Transactions and Advance Consideration	The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration. If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt. Entities can choose to apply the interpretation: (a) retrospectively for each period presented (b) prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or (c) prospectively from the beginning of a prior reporting period presented as comparative information.	1 January 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ae) New standards and interpretations effective after 01 January 2017 (continued)

IFRS 9, 'Financial instruments'	In July 2014, the IASB issued IFRS 9 Financial Instruments ("IFRS 9"), which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 addresses all aspects of financial instruments including classification and measurement, impairment and hedge accounting. **(a) Classification and measurement** The standard requires the Group to consider two criteria when determining the measurement basis for debt instruments (e.g. loans, debt securities) held as financial assets: i) its business model for managing those financial assets; and ii) cash flow characteristics of the assets. And based on these criteria, debt instruments are measured at amortized cost, fair value through OCI, or fair value through profit or loss. Equity instruments are measured at fair value through profit or loss. However, the Group may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through OCI, with no subsequent recycling to profit and loss, while recognizing dividend income in profit and loss. In addition, the Group may, at initial recognition, irrevocably elect to designate a financial asset as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. This designation is also available to existing financial assets. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.	1 January 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ae) New standards and interpretations effective after 01 January 2017 (continued)

IFRS 9, 'Financial instruments' (continued)	**(b) Impairment** The standard introduces a new single model for the measurement of impairment losses on all financial assets including loans and debt securities measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL. Stage 1 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months. Stage 2 Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. Stage 3 Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.	

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ae) New standards and interpretations effective after 01 January 2017 (continued)

IFRS 9, 'Financial instruments' (continued)	Key Considerations Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are: *Assessment of Significant Increase in Credit Risk* The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes. Our assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2: (1) We have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition. (2) Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk. (3) IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39. *Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios* The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.	

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ae) New standards and interpretations effective after 01 January 2017 (continued)

IFRS 9, 'Financial instruments' (continued)	PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables. Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. Our base case scenario will be based on macroeconomic forecasts published by our internal economics group. Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant. Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities. *Definition of default* The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. *Expected Life* When measuring ECL, the Group must consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.	

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ae) New standards and interpretations effective after 01 January 2017 (continued)

IFRS 9, 'Financial instruments' (continued)	*Governance* In addition to the existing risk management framework, we have established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management and Economics and will be responsible for reviewing and approving key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in our financial statements. **(c) Hedging** IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9. **(d) Transition impact** In line with the IFRS 9 transition provisions, the Group has elected to record an adjustment to its opening 1 January 2018 retained earnings to reflect the application of the new requirements of Impairment, Classification and Measurement at the adoption date without restating comparative information. For classification and measurement, the combined application of the contractual cash flow characteristics and business model tests as at January 1, 2018 is expected to result in certain differences in the classification of financial assets when compared to our classification under IAS 39. Based on the assessment performed by the Group, these differences are not expected to have a material impact on the classification of Group's financial assets nor their carrying value. The existing hedging relationships will continue to qualify and be effective under the IFRS 9 hedge accounting provisions and will not have any transition impact on the Group financial statements.	

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ae) New standards and interpretations effective after 01 January 2017 (continued)

IFRS 9, 'Financial instruments' (continued)	With regards to the impairment requirements of IFRS 9, the Group estimates the transition impact will reduce shareholders' equity by approximately 3.7% of which 1.3% relates to ECL on those financial assets (such as Cash and Balances with Central Bank, Due from Banks, Customer Acceptances and Off balance sheet items) which were not considered under the incurred loss model in IAS 39. The combined impact of the IFRS 9 transitional adjustments on Equity is expected to be less than that generated by the Group's quarterly profit and is not considered significant by the management. The Group continues to refine the impairment models and related processes leading up to March 31, 2018 reporting. (e) **Financial instruments: disclosures (IFRS 7)** The Group will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.	

Impact of other accounting standards

The Group has assessed the impact of other standards, amendments to standards, revisions and interpretations. Based on the assessment, these standards, amendments to standards, revisions and interpretations have no material impact on the consolidated financial statements of the Group as at the reporting date.

4 CASH AND DEPOSITS WITH CENTRAL BANK

	2017 AED 000	2016 AED 000
Cash	3,624,504	3,076,809
Statutory and other deposits with Central Banks	31,982,679	29,477,318
Interest bearing placements with Central Banks	1,118,141	895,770
Murabahas and Interest bearing certificates of deposits with Central Banks	35,127,294	23,764,763
	71,852,618	57,214,660

The reserve requirements which are kept with the Central Banks of the countries in which the Group operates are not available for use in the Group's day to day operations and cannot be withdrawn without the approval of the Central Banks. The level of reserves required changes periodically in accordance with the directives of the Central Banks.

5 DUE FROM BANKS

31 December 2017	Local (UAE) AED 000	Foreign AED 000	Total AED 000
Time loans	7,849,859	30,093,155	37,943,014
Overnight, call and short notice	1,571,730	10,231,686	11,803,416
Gross due from banks	9,421,589	40,324,841	49,746,430
Specific allowances for impairment	-	(20,295)	(20,295)
	9,421,589	40,304,546	49,726,135

31 December 2016	Local (UAE) AED 000	Foreign AED 000	Total AED 000
Time loans	10,108,393	34,934,507	45,042,900
Overnight, call and short notice	1,450,552	10,612,808	12,063,360
Gross due from banks	11,558,945	45,547,315	57,106,260
Specific allowances for impairment	-	(24,112)	(24,112)
	11,558,945	45,523,203	57,082,148

The average yield on these placements was 1.53 % p.a. (2016: 1.36% p.a.)

6 TRADING SECURITIES

31 December 2017	*DOMESTIC AED 000	**REGIONAL AED 000	***INTERNATIONAL AED 000	Total AED 000
Government bonds	324,188	772,362	913,843	2,010,393
Corporate bonds	176,049	123,260	1,234,288	1,533,597
Equity	11,307	-	-	11,307
Others	-	-	-	-
	511,544	895,622	2,148,131	3,555,297

31 December 2016	*DOMESTIC AED 000	**REGIONAL AED 000	***INTERNATIONAL AED 000	Total AED 000
Government bonds	100,733	91,173	106,755	298,661
Corporate bonds	167,629	100,071	962,737	1,230,437
Equity	-	-	-	-
Others	46,181	-	-	46,181
	314,543	191,244	1,069,492	1,575,279

*Domestic: These are securities issued within UAE.
**Regional: These are securities issued within Middle East.
***International: These are securities issued outside the Middle East region.

7 INVESTMENT SECURITIES

31 December 2017	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	10,828	1,118,923	-	1,129,751
Corporate bonds	33,923	14,547	-	48,470
	44,751	1,133,470	-	1,178,221
AVAILABLE-FOR-SALE:				
Government bonds	1,224,250	5,806,618	2,225,337	9,256,205
Corporate bonds	966,189	701,138	2,342,843	4,010,170
Equity	268,410	443,420	57,725	769,555
Others	67,355	51,713	153,816	272,884
	2,526,204	7,002,889	4,779,721	14,308,814
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Others	-	130	5,780	5,910
	-	130	5,780	5,910
	2,570,955	8,136,489	4,785,501	15,492,945

7 INVESTMENT SECURITIES (continued)

31 December 2016	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	11,156	1,048,108	-	1,059,264
Corporate bonds	145,543	14,882	-	160,425
	156,699	1,062,990	-	1,219,689
AVAILABLE-FOR-SALE:				
Government bonds	605,260	5,187,454	868,087	6,660,801
Corporate bonds	1,125,225	878,431	2,163,121	4,166,777
Equity	281,356	667,940	84,685	1,033,981
Others	72,992	57,189	204,179	334,360
	2,084,833	6,791,014	3,320,072	12,195,919
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Others	76,393	137	81,484	158,014
	76,393	137	81,484	158,014
	2,317,925	7,854,141	3,401,556	13,573,622

During the year the Group has transferred investments amounting to AED Nil (2016: AED 1,037 million) from Available for Sale (AFS) to held to maturity due to change in the intention. These investments were transferred at fair value at the date of transfer and measured at amortised cost after the date of transfer. The AFS reserve balance in the OCI relating to these investments will be recycled to income statement over the life of these instruments.

Included in available-for-sale investment securities is an amount of AED 358 million (2016: AED 46 million), pledged under repurchase agreements with banks.

8 LOANS AND RECEIVABLES

		2017 AED 000	2016 AED 000
(a)	By Type		
	Overdrafts	124,651,482	112,410,660
	Time loans	136,814,451	133,066,809
	Loans against trust receipts	7,779,801	8,169,257
	Bills discounted	2,596,675	2,652,915
	Credit card receivables	5,767,317	5,218,498
	Others	591,617	624,025
	Gross loans and receivables	278,201,343	262,142,164
	Other debt instruments	51,357	63,649
	Total loans and receivables	278,252,700	262,205,813
	Less: Allowances for impairment	(20,648,034)	(19,593,196)
		257,604,666	242,612,617
	Total of impaired loans and receivables	14,772,946	14,773,140

		2017 AED 000	2016 AED 000
(b)	By Business Units		
	Corporate banking	223,779,753	208,775,767
	Consumer banking	33,772,980	33,733,742
	Treasury	20,471	12,111
	Others	31,462	90,997
		257,604,666	242,612,617

8 LOANS AND RECEIVABLES (continued)

	2017 AED 000	2016 AED 000
Movement in allowances for specific impairment		
Balance as at 1 January	13,355,890	13,139,731
Allowances for impairment made during the year	2,037,858	2,338,126
Write back /recoveries made during the year	(1,124,142)	(1,569,187)
Amounts written off during the year	(648,282)	(547,267)
Exchange and other adjustments	(674)	(5,513)
Balance as at 31 December	13,620,650	13,355,890
Movement in allowances for collective impairment		
Balance as at 1 January	6,237,306	5,530,397
Allowances for impairment made during the year	790,731	712,582
Exchange and other adjustments	(653)	(5,673)
Balance as at 31 December	7,027,384	6,237,306
Total	20,648,034	19,593,196

9 LOANS SECURITISATION

(a) Incorporation of Emirates NBD Asset Finance Companies in Ireland and Cayman Islands for asset securitisation

On 8 June 2012, ENBD Asset Finance Company No.1 Limited and on 1 June 2012, ENBD Asset Finance Company No.2 Limited were incorporated under the respective Companies Law (Ireland and Cayman Islands) as Special Purpose Entities (SPEs). The principal activities of these companies are to purchase portfolios of loans through issuance of notes.

On 9 October 2012, the Group transferred corporate loans and receivables amounting to AED 1,876 million to ENBD Asset Finance Company No.1 Limited (incorporated under Ireland companies law). However, the Group is exposed to all the credit risk and rewards associated with the transferred assets and hence the Group continues to recognise these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 1,876 million, secured by these assets, is included under debt issued and other borrowed funds and is carried at amortised cost. Further, the Group through ENBD Asset Finance Company No.2 Limited (incorporated under Cayman Islands companies law), entered into a total return swap contract referencing these notes' liability, thereby retaining all the risks and rewards associated with the loan exposures.

On 28th October 2014, the Group transferred out loans and receivables amounting to AED 918 million and through ENBD Asset Finance Company No.2 Limited (incorporated under Cayman Islands companies law), entered into a total return swap contract referencing such loans and receivables thereby retaining all the risks and rewards associated with the loan exposure. The funding of AED 918 million secured by these assets is included under debt issued and other borrowed funds carried at amortised cost.

Since the Group is exposed to variable returns from its involvement in the SPEs and has the ability to affect those returns through its power over the SPEs, these SPEs are consolidated in compliance with IFRS 10.

As at 31 December 2017, the corporate loans and receivables balance transferred to Ireland and Cayman SPEs is AED 1,264 million [2016: AED 1,313 million] and the associated liability secured by these assets and included under debt issued and other borrowed funds is AED 1,264 million [2016: AED 1,313 million].

(b) Securitisation of Islamic Financing Receivables

During 2012, the Group issued sukuk amounting to AED 3.7 billion. Further sukuk issuance of AED 3.7 billion was made during the year 2016 to raise US Dollar denominated medium term finance via a Sharia'a compliant sukuk financing arrangement. As at December 2017 the total outstanding sukuk payable is AED 5.5 billion [2016: AED 7.4 billion].

The Group transferred certain identified Ijara and Murabaha assets totaling to AED 7.4 billion (the "co-owned assets") of its Subsidiary, Emirates Islamic Bank, to EIB Sukuk company limited – (the "Issuer"), a special purpose vehicle formed for the issuance of these sukuk. This medium term finance is carried at amortised cost.

In substance, the co-owned assets remain in control of the Group; accordingly these assets continue to be recognised by the Group. In case of any default, the Group has provided an undertaking to make good all losses to the sukuk holders. The assets are in the control of the Group and shall continue to be serviced by the Group.

The Issuer will pay a semi-annual distribution amount from returns received in respect of the co-owned assets. Such proceeds are expected to be sufficient to cover the semi-annual distribution amount payable to the sukuk holders on the semi-annual distribution dates. Upon maturity of the sukuk, the Group has undertaken to repurchase the assets at the exercise price.

10 ISLAMIC FINANCING RECEIVABLES

	2017 AED 000	2016 AED 000
Murabaha	31,038,125	31,667,600
Ijara	17,529,473	18,696,462
Credit cards receivable	1,203,012	1,096,076
Wakala	1,005,933	1,306,991
Istissna'a	1,872,266	1,909,133
Others	1,119,027	550,445
Total Islamic financing receivables	53,767,836	55,226,707
Less: Deferred income	(2,634,875)	(2,688,915)
Less: Allowances for impairment	(4,645,013)	(4,754,100)
	46,487,948	47,783,692
Total of impaired Islamic financing receivables	5,538,151	5,492,156

Corporate Ijara assets amounting to AED 4.8 billion [2016: 5.9 billion] and Murabaha assets amounting to AED 2.2 billion [2016: 1.5 billion] were securitised for the purpose of issuance of Sukuk liability (refer Note 18).

<u>Movement in allowances for specific impairment</u>	2017 AED 000	2016 AED 000
Balance as at 1 January	3,971,709	4,029,366
Allowances for impairment made during the year	1,426,785	2,282,065
Write back / recoveries made during the year	(653,119)	(1,502,252)
Amounts written off during the year	(684,147)	(837,524)
Exchange and other adjustments	121	54
Balance as at 31 December	4,061,349	3,971,709
<u>Movement in allowances for collective impairment</u>		
Balance as at 1 January	782,391	539,947
Allowances for impairment made during the year	(198,739)	242,438
Exchange and other adjustments	12	6
Balance as at 31 December	583,664	782,391
Total	4,645,013	4,754,100

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2017 AED 000	2016 AED 000
Investments in associates	181,510	173,725
Investments in joint ventures	1,442,820	1,506,637
Total	1,624,330	1,680,362

The Group's share of profit of associates and joint venture is as below:

	2017 AED 000	2016 AED 000
Share of profit	72,167	135,138

The following is the aggregated financial information of the associate and joint venture:

	2017 AED 000	2016 AED 000
Assets	5,006,108	4,376,355
Liabilities	3,576,492	2,826,197
Revenue	1,519,765	1,432,390
Profit/(Loss)	285,910	275,735

12 GOODWILL AND INTANGIBLES

	Goodwill	Intangibles on Acquisition				Total
		Banking license	Software	Customer relationships	Core deposit intangibles	
31 December 2017	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Cost						
Balance as at 1 January	5,581,678	218,157	9,281	157,490	659,392	6,625,998
Foreign exchange movement*	(28,656)	(78,073)	-	-	4,782	(101,947)
	5,553,022	140,084	9,281	157,490	664,174	6,524,051
Less: Amortisation and impairment						
Balance as at 1 January	4,903	-	9,281	157,490	627,174	798,848
Amortisation and impairment for the year	-	-	-	-	37,000	37,000
Balance as at 31 December	4,903	-	9,281	157,490	664,174	835,848
Net Goodwill and Intangibles	5,548,119	140,084	-	-	-	5,688,203
31 December 2016						
Cost	5,581,678	218,157	9,281	157,490	659,392	6,625,998
Less: Amortisation and impairment	4,903	-	9,281	157,490	627,174	798,848
Net Goodwill and Intangibles	5,576,775	218,157	-	-	32,218	5,827,150

*Foreign exchange movement relates to translation of acquired Goodwill and intangibles pertaining to Emirates NBD Egypt using the period end exchange rate.

Impairment testing of goodwill

The goodwill acquired through business combinations with indefinite life is reviewed annually for impairment by comparing the recoverable amount based on value-in-use calculations for cash generating units (CGUs) to which goodwill has been allocated with its carrying value.

The goodwill has been allocated to four cash-generating units:

(a) Corporate banking
(b) Consumer banking
(c) Treasury
(d) Emirates NBD Egypt

12 GOODWILL AND INTANGIBLES (continued)

Key assumptions used in impairment testing for goodwill

The recoverable amount of the cash-generating units has been determined based on a value in use calculation, using cash flow projections covering a five-year period and by applying a terminal growth rate thereafter.

The calculation of value in use in the cash-generating units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share during the projection period;
- Projected growth rates used to extrapolate cash flows beyond the projection period;
- Current local Gross Domestic Product ("GDP"); and
- Local inflation rates.

Interest margins

Interest margins are based on prevailing market rates at the start of the budget period. These are changed over the budget period for anticipated market conditions.

Discount rates

Discount rates reflect management's estimate of return on capital employed ("ROCE") required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital ("WACC").

Projected growth rate, GDP and local inflation rates

Assumptions are based on published industry research.

At 31 December 2017, the goodwill allocated to Corporate Banking was AED 3,589 million (2016: AED 3,589 million), the goodwill allocated to Consumer Banking was AED 1,700 million (2016: AED 1,700 million) and the goodwill allocated to Treasury was AED 206 million (2016: AED 206 million).

The recoverable amount of goodwill of CGUs, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with an appropriate terminal growth rate applied thereafter. The forecast cash flows have been discounted using the WACC in the jurisdiction where the CGU operates. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount of the CGUs as mentioned in the table below:

Cash generating units (CGUs)	One percentage change in discount rate (AED million)	One percentage change in terminal growth rate (AED million)
Corporate Banking	37,326	33,108
Consumer Banking	42,108	37,350
Treasury	5,090	4,515
Emirates NBD Egypt S.A.E	119	112

Based on the above assessment, goodwill is not impaired as at 31 December 2017.

12 GOODWILL AND INTANGIBLES (continued)

Intangibles:

Acquired intangibles are recognised at their "fair value" upon initial recognition.

The specific criteria which needs to be satisfied for an intangible asset to be recognised separately from goodwill in an acquisition is that the intangible asset must be clearly identifiable, in that it either;

- Be separable, that is, be capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

- Arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangibles excluding banking license are amortised using the straight-line method over the useful life of the asset, which is estimated to be between 3 and 11 years. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised if the recoverable amount is lower than the carrying amount.

The banking license has an indefinite life and is tested for impairment annually. For impairment testing purposes, the banking license is allocated to the relevant cash generating unit.

13 OTHER ASSETS

	2017 AED 000	2016 AED 000
Accrued interest receivable	1,599,981	1,444,469
Islamic Profit receivable	132,901	94,023
Prepayments and other advances	280,532	242,947
Sundry debtors and other receivables	1,288,224	1,028,472
Inventory	1,279,410	1,595,633
Fair value of deposit (a)	143,492	216,659
Others	1,671,621	2,985,714
	6,396,161	7,607,917

(a) On acquisition of Dubai Bank in October 2011, the Group received a deposit from the Ministry of Finance of the UAE amounting to AED 2.8 billion at a discount compared to the market available interest rate. As per the Group policy, the financial liability should be recognised initially at its fair value plus the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Since the deposit was received at an interest rate which is below the market available interest rate, a fair value gain of AED 543 million was recognised in the financial statements in 2011, which will be amortised over the term of the deposit (8 years) at the effective interest rate.

14 DUE TO BANKS

	2017 AED 000	2016 AED 000
Demand and call deposits	2,178,650	1,164,273
Balances with correspondent banks	1,385,690	1,949,580
Repurchase agreements with banks	358,070	45,906
Time and other deposits	17,388,783	15,742,718
	21,311,193	18,902,477

The interest rates paid on the above averaged 1.43% p.a. (2016: 1.21% p.a).

15 CUSTOMER DEPOSITS

		2017 AED 000	2016 AED 000
(a)	By Type		
	Demand, call and short notice	123,766,654	117,527,354
	Time	108,935,161	106,367,410
	Savings	26,269,769	24,082,248
	Others	6,741,332	6,721,190
		265,712,916	254,698,202

		2017 AED 000	2016 AED 000
(b)	By Business Units		
	Corporate banking	109,565,596	94,171,993
	Consumer banking	136,442,825	143,353,560
	Treasury	19,704,495	17,172,649
		265,712,916	254,698,202

The interest rates paid on the above deposits averaged 1.13% p.a (2016: 1.09% p.a.).

16 ISLAMIC CUSTOMER DEPOSITS

(a) By Type	2017 AED 000	2016 AED 000
Demand, call and short notice	17,247,786	17,234,711
Time	31,951,247	28,131,838
Savings	11,025,549	10,223,609
Others	590,803	464,079
	60,815,385	56,054,237

(b) By Business Units	2017 AED 000	2016 AED 000
Corporate banking	21,985,002	18,140,237
Consumer banking	37,272,087	37,179,740
Treasury	1,558,296	734,260
	60,815,385	56,054,237

The profit rates paid on the above deposits averaged 1.04% p.a. (2016: 1.20% p.a.).

17 DEBT ISSUED AND OTHER BORROWED FUNDS

	2017 AED 000	2016 AED 000
Medium term note programme*	32,098,003	31,139,525
Term loans from banks	6,426,875	6,243,250
Borrowings raised from loan securitisations (refer Note 9)	1,263,970	1,312,959
	39,788,848	38,695,734

*Includes Tier 2 notes amounting to AED 3,752 million (2016: AED 3,752 million) raised through public and private placements.

	2017 AED 000	2016 AED 000
Balance as at 1 January	38,695,734	31,287,342
New issues	10,394,762	16,709,587
Repayments	(9,445,340)	(9,243,619)
Other movements*	143,692	(57,576)
Balance at end of period	39,788,848	38,695,734

*Represents exchange rate movement on debts issued in foreign currency. The Group hedges the foreign currency risk on public issuances through derivative financial instruments.

As at 31 December 2017, the outstanding medium term borrowings totalling AED 39,789 million (2016: AED 38,696 million) is falling due as below:

	2017 AED millions	2016 AED millions
2017	-	9,176
2018	4,080	1,826
2019	13,251	12,666
2020	7,203	4,745
2021	1,726	1,358
2022	7,877	4,552
2023	3,679	3,642
2024	529	540
2025	160	114
2026	125	77
2027	755	-
2032	257	-
2037	147	-
	39,789	**38,696**

The interest rate paid on the above averaged 3.17% p.a in 2017 (2016: 3.18% p.a.).

18 SUKUK PAYABLE

	2017 AED 000	2016 AED 000
Balance as at 1 January	7,368,138	3,672,500
New issues	-	3,696,948
Repayments	(1,836,250)	-
Other movements*	(5,239)	(1,310)
Balance at end of period	**5,526,649**	**7,368,138**

As at 31 December 2017, the outstanding Sukuk payable totaling AED 5,527 million (31 December 2016: AED 7,368 million) is falling due as below:

	2017 AED million	2016 AED million
2017	-	1,836
2018	1,836	1,836
2021	3,691	3,696
	5,527	7,368

19 OTHER LIABILITIES

	2017 AED 000	2016 AED 000
Accrued interest payable	1,621,982	1,518,050
Profit payable to Islamic depositors	142,691	259,376
Managers' cheques	1,350,049	1,164,080
Trade and other payables	1,835,223	1,557,161
Staff related liabilities	1,030,213	1,029,034
Provision for taxation (refer Note 32)	63,643	55,666
Others	3,447,512	3,074,646
	9,491,313	8,658,013

20 ISSUED CAPITAL AND SHARE PREMIUM RESERVE

Authorised, issued and fully paid: 5,557,774,724 ordinary shares of AED 1 each (2016: 5,557,774,724 ordinary shares).

Movement of ordinary shares in issue during the year is made up as follows:

	Number of shares	Share capital AED 000	Share premium reserve AED 000
As at 1 January 2017	5,557,774,724	5,557,775	12,270,124
Issue of bonus shares	-	-	-
As at 31 December 2017	5,557,774,724	5,557,775	12,270,124
As at 1 January 2016	5,557,774,724	5,557,775	12,270,124
Issue of bonus shares	-	-	-
As at 31 December 2016	5,557,774,724	5,557,775	12,270,124

At the forthcoming Annual General Meeting, the Group is proposing a cash dividend of AED 0.40 per share for the year (2016: AED 0.40 per share) amounting to AED 2,223 million (2016: AED 2,223 million).

21 TIER I CAPITAL NOTES

The Group has issued a number of regulatory Tier 1 capital notes with details mentioned in the table below. The notes are perpetual, subordinated and unsecured. The Group can elect not to pay a coupon at its own discretion. Note holders will not have a right to claim the coupon and such event will not be considered an event of default. The notes carry no maturity date and have been classified as equity.

Issuance Month/year	Issued Amount	Coupon rate
September 2014	USD 500 million (AED 1.83 billion)	Fixed interest rate with a reset after six years
May 2013	USD 1 billion (AED 3.67 billion)	Fixed interest rate with a reset after six years
June 2009	AED 4 billion	Fixed interest rate for the first five years and on a floating rate basis thereafter.

22 RESERVES

Legal and statutory reserves

In accordance with the Bank’s Articles of Association, and in compliance with Article 82 of Union Law No.10 of 1980, a minimum of 10% of profit should be transferred to a non-distributable legal and statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Since the legal reserve is equal to 50% of the Bank’s issued capital, profit was not appropriated to the legal reserve during the year.

Regular reserve

10% of the profit is also transferable to a non-distributable regular reserve until such time as this reserve equals 10% of the Bank's issued capital.

	Legal and statutory reserve AED 000	Regular reserve AED 000	Other reserves AED 000	Total AED 000
At 1 January 2017	2,778,888	555,800	2,313,733	5,648,421
Transfer from retained earnings	-	-	-	-
At 31 December 2017	2,778,888	555,800	2,313,733	5,648,421

Prior year comparatives are shown in the statement of changes in equity.

Fair value reserve

Fair value reserve includes the net change in fair value of available-for-sale financial assets and the net effective portion of changes in fair value of cash flow hedges.

Currency translation reserve

Currency translation reserve represents the exchange differences arising from re-translating the opening net investment in foreign operations.

23 NET INTEREST INCOME

	2017 AED 000	2016 AED 000
Interest and similar income		
Loans and receivables to customers	12,096,323	10,874,682
Loans and receivables to banks	603,400	550,790
Other debt securities	1,083	3,492
Available-for-sale investment securities	592,386	832,865
Held to maturity investment securities	168,376	44,224
Trading securities and designated at fair value through profit or loss investment securities	73,310	57,036
Others	39,069	34,660
Total interest income	13,573,947	12,397,749
Interest and similar expense		
Deposits from customers	(2,991,279)	(2,479,891)
Borrowings from banks and financial institutions	(224,609)	(177,969)
Securities lent and repurchase agreements	(6,769)	(1,958)
Others	(1,392,554)	(1,222,422)
Total interest expense	(4,615,211)	(3,882,240)
Net interest income	8,958,736	8,515,509

24 INCOME FROM ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2017 AED 000	2016 AED 000
Murabaha	1,441,064	1,570,891
Ijara	888,442	739,908
Istissna'a	51,127	40,739
Wakala	47,575	39,131
Others	203,837	156,399
	2,632,045	2,547,068

25 DISTRIBUTION ON ISLAMIC DEPOSITS AND PROFIT PAID TO SUKUK HOLDERS

	2017 AED 000	2016 AED 000
Distribution to depositors	601,012	723,459
Profit paid to sukuk holders	203,809	228,023
	804,821	951,482

Distribution on Islamic deposits represents the share of income between depositors and equity holders. The allocation and distribution to depositors is approved by the Fatwa and Sharia’a Supervisory Board of the Islamic banking subsidiaries.

Profit paid to sukuk holders represents the distribution of returns received in respect of leased assets transferred to the EIB Sukuk Company Limited which was specifically formed for this transaction.

26 NET FEE AND COMMISSION INCOME

	2017 AED 000	2016 AED 000
Commission income on Trade finance products / services	678,404	660,078
Fee income	3,084,603	2,894,480
Brokerage fees	79,307	82,652
Portfolio and other management fees	95,995	110,052
Total fee and commission income	3,938,309	3,747,262
Fee and commission expense	(981,346)	(885,881)
	2,956,963	2,861,381

27 NET GAIN / (LOSS) ON TRADING SECURITIES

	2017 AED 000	2016 AED 000
Realised gain / (loss) on trading securities	(10,429)	(6,358)
Unrealised gain / (loss) on trading securities	153,346	171,635
	142,917	165,277

28 OTHER OPERATING INCOME

	2017 AED 000	2016 AED 000
Dividend income	33,946	40,464
Gain from sale of available-for-sale investment securities	206,436	218,710
Gain / (loss) from investment securities designated at fair value through profit or loss	2,369	(667)
Rental income	48,466	79,975
Gain on sale of properties (investment properties / inventories)	16,220	129,961
Foreign exchange income*	1,193,684	936,559
Derivative income	73,593	40,916
Other income (net)	(5,394)	164,297
	1,569,320	1,610,215

*Foreign exchange income comprises trading and translation gain and gain on dealings with customers.

29 GENERAL AND ADMINISTRATIVE EXPENSES

	2017 AED 000	2016 AED 000
Staff cost	3,031,722	3,220,947
Occupancy cost	357,937	381,911
Equipment and supplies	117,906	131,412
Information technology cost	212,357	151,080
Communication cost	150,565	153,496
Service, legal and professional fees	105,826	111,756
Marketing related expenses	158,234	115,442
Depreciation	350,532	324,768
Amortisation of intangibles	37,000	63,990
Others	322,150	232,885
	4,844,229	4,887,687

30 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

The charge to the income statement for the net impairment loss on financial assets is made up as follows:

	2017 AED 000	2016 AED 000
Net impairment of loans and receivables (refer note 8)	1,704,447	1,481,521
Net impairment of Islamic financing receivables (refer note 10)	574,927	1,022,251
Net impairment of investment securities	47,227	121,511
Net impairment of due from banks / other assets	8,870	(64)
Bad debt written off / (recovery) - net	(106,954)	(17,284)
Net impairment loss for the year	2,228,517	2,607,935

31 DIRECTORS FEES

This comprises of fees payable to the directors of the Group of AED 31 million (2016: AED 20.65 million).

32 TAXATION

At 31 December 2017 provisions for tax on overseas branch operations and subsidiary amount to AED 109 million (2016: AED 148 million) (refer Note 19).

33 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 (further adjusted for interest expense on tier I capital notes) of the Bank by the weighted average number of ordinary shares outstanding during the period. 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 diluted potential ordinary shares, if any.

	2017 AED 000	2016 AED 000
Profit for the year attributable to equity holders	8,345,024	7,239,047
Deduct : Interest on Tier 1 capital notes	(589,813)	(590,530)
Net profit attributable to equity holders	7,755,211	6,648,517
Weighted average number of equity shares in issue ('000)	5,557,775	5,557,775
Earnings per share* (AED)	1.40	1.20

*The diluted and basic Earnings per share were the same at the year end.

34 DERIVATIVES

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

31 December 2017 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	712,127	(606,968)	162,459,678	90,562,542	46,619,393	22,466,814	2,653,733	157,196
Foreign exchange options	14,637	(14,582)	21,678,528	2,831,847	3,627,063	15,219,618	-	-
Interest rate swaps/caps	1,679,834	(1,297,513)	232,222,299	25,487,117	52,948,131	81,540,176	42,809,804	29,437,071
Commodity options	29,586	(29,585)	811,054	111,663	699,391	-	-	-
	2,436,184	(1,948,648)	417,171,559	118,993,169	103,893,978	119,226,608	45,463,537	29,594,267
Derivatives held as cash flow hedges:								
Interest rate swaps	379,847	(48,092)	11,761,739	550,000	3,236,150	3,462,563	4,513,026	-
Derivatives held as fair value hedges:								
Interest rate swaps	35,489	(246,596)	6,470,889	104,666	-	1,694,328	1,865,959	2,805,936
Derivatives held as hedge of a net investment in foreign operations:								
Forward foreign exchange contracts	-	(9,159)	355,989	-	355,989	-	-	-
Total	2,851,520	(2,252,495)	435,760,176	119,647,835	107,486,117	124,383,499	51,842,522	32,400,203

34 DERIVATIVES (continued)

31 December 2016 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	713,573	(733,496)	155,735,066	81,912,198	58,984,007	13,667,261	983,856	187,744
Foreign exchange options	63,621	(63,621)	33,114,165	4,983,768	6,793,172	21,337,225	-	-
Interest rate swaps/caps	2,291,500	(1,605,753)	219,641,514	27,855,538	38,672,232	83,038,741	42,321,285	27,753,718
Commodity options	12,818	(12,819)	1,097,002	-	233,130	863,872	-	-
	3,081,512	(2,415,689)	409,587,747	114,751,504	104,682,541	118,907,099	43,305,141	27,941,462
Derivatives held as cash flow hedges:								
Interest rate swaps	69,027	(31,573)	8,532,333	-	1,634,145	2,317,250	2,456,838	2,124,100
Derivatives held as fair value hedges:								
Interest rate swaps	3,433	(377,446)	3,191,316	110,175	-	1,474,910	336,577	1,269,654
Derivatives held as hedge of a net investment in foreign operations:								
Forward foreign exchange contracts	-	-	-	-	-	-	-	-
Total	3,153,972	(2,824,708)	421,311,396	114,861,679	106,316,686	122,699,259	46,098,556	31,335,216

The hedged forecast cash flows which are expected to occur over the future years and are expected to affect profit or loss are insignificant.

34 DERIVATIVES (continued)

Derivative product types

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

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, the underlying amounts are exchanged in different currencies.

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

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group and potential future fluctuations. The majority of the fair value of favorable contracts (and therefore credit risk) is exposure to financial institutions. All credit exposure is managed under approved facilities, and in many cases are collateralized under Credit Support Annex (CSA). The Group takes a Credit Value Adjustment (CVA) on outstanding derivative transactions. The methodology for CVA calculation relies on three components: the probability of default of the counterparty, the expected positive exposure and the recovery rate. CVA is computed on all asset classes including Foreign Exchange, Interest Rates and Commodities.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales and position coverage. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading is conducted under Board approved limits.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures.

The Group uses interest rate swaps and forward rate agreements to hedge against the cash flow risks arising on certain floating rate customer deposits and medium term borrowings. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate loans and receivables. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as cash flow hedges.

The Group also uses interest rate swaps to hedge against changes in value of investment securities due to interest rate movements. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

35 OPERATING SEGMENTS

The Group is organised into the following main businesses:

(a) Corporate banking represents structured financing, current and savings accounts, customer deposits, overdrafts, trade finance and term loans for government, corporate, commercial customers, investment banking and Islamic products under Al Watani Al Islami;

(b) Consumer banking represents retail loans and deposits, private banking and wealth management, equity broking services, asset management and consumer financing;

(c) Treasury activities comprises of managing the Group’s portfolio of investments, funds management, and interbank treasury operations;

(d) Islamic banking activities represent the income and fees earned and expenses paid by the Islamic banking subsidiaries; and

(e) Other operations of the Group include Emirates NBD Egypt, Tanfeeth, property management, operations and support functions.

35 OPERATING SEGMENTS (continued)

31 December 2017	Corporate banking AED 000	Consumer banking AED 000	Treasury AED 000	Islamic Banking AED 000	Others AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	3,695,175	4,414,118	253,910	1,611,104	811,653	10,785,960
Net Fees, commission and other income	1,283,455	2,418,710	527,878	765,663	(326,506)	4,669,200
Total operating income	4,978,630	6,832,828	781,788	2,376,767	485,147	15,455,160
General and administrative expenses	(412,100)	(1,908,367)	(124,201)	(1,011,874)	(1,387,687)	(4,844,229)
Net impairment loss on financial assets	(805,390)	(585,004)	(3,139)	(664,006)	(170,978)	(2,228,517)
Share of profit of associates and joint ventures	-	-	-	-	72,167	72,167
Taxation charge	4,294	(14,002)	(8,411)	-	(90,666)	(108,785)
Group profit for the year	3,765,434	4,325,455	646,037	700,887	(1,092,017)	8,345,796
Segment Assets	269,171,367	53,560,741	62,578,722	56,331,103	28,730,350	470,372,283
Segment Liabilities and Equity	125,938,531	141,763,617	39,357,999	57,008,709	106,303,427	470,372,283

35 OPERATING SEGMENTS (continued)

31 December 2016	Corporate banking AED 000	Consumer banking AED 000	Treasury AED 000	Islamic Banking AED 000	Others AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	3,092,385	3,783,190	(83,424)	1,736,628	1,582,316	10,111,095
Net Fees, commission and other income	1,205,969	2,387,898	463,749	690,221	(110,964)	4,636,873
Total operating income	4,298,354	6,171,088	380,325	2,426,849	1,471,352	14,747,968
General and administrative expenses	(417,672)	(1,963,479)	(126,975)	(1,092,634)	(1,286,927)	(4,887,687)
Net impairment loss on financial assets	(339,938)	(852,466)	(21,067)	(1,206,493)	(187,971)	(2,607,935)
Share of profit of associates and joint ventures	-	-	-	-	135,138	135,138
Taxation charge	(8,719)	(7,398)	2,310	-	(134,514)	(148,321)
Group profit for the year	3,532,025	3,347,745	234,593	127,722	(2,922)	7,239,163
Segment Assets	249,515,730	54,019,000	58,423,376	53,895,578	32,150,328	448,004,012
Segment Liabilities and Equity	112,006,173	146,661,610	31,291,641	57,480,884	100,563,704	448,004,012

36 SUBSIDIARIES ASSOCIATES AND JOINT VENTURES

The direct subsidiaries, associates and joint ventures of the Group are as follows:

	Group % Share-holding	Nature of business	Country of incorporation
As at 31 December 2017			
Subsidiaries:			
Buzz Contact Centre Solutions LLC	100	Call centre management services	Dubai, U.A.E.
Dubai Bank PJSC	100	Islamic Banking	Dubai, U.A.E.
Emirates NBD Capital PSC	100	Funds management	Dubai, U.A.E.
Emirates Funds Managers (Jersey) Limited	100	Asset management	Jersey
Emirates NBD Global Funding Limited	100	Medium term borrowing and money market transactions	Cayman Islands
Emirates NBD Properties LLC	100	Real estate	Dubai, U.A.E.
Emirates NBD Securities LLC	100	Brokerage services	Dubai, U.A.E.
Emirates NBD Asset Management Limited	100	Asset management	Dubai, U.A.E.
Emirates Islamic Bank PJSC	99.9	Islamic banking	Dubai, U.A.E.
Emirates Money Consumer Finance LLC	100	Consumer Finance	Dubai, U.A.E.
Emirates Funds LLC	100	Asset Management	Dubai, U.A.E.
Emirates NBD Capital (KSA) LLC	100	Investment Services	KSA
Emirates NBD Trust Company (Jersey) Limited	100	Trust administration services	Jersey
Tanfeeth LLC	100	Shared services organization	Dubai, U.A.E.
KSA Mortgage Company	100	Nominee Company for Mortgage Business	KSA
ENBD London Branch Nominee Company	100	Asset Management	England
Emirates NBD Egypt S.A.E	100	Banking	Egypt
Associate:			
National General Insurance Company PSC	36.7	General and life insurance	Dubai, U.A.E.
Joint venture:			
Network International LLC	51	Card processing services	Dubai, U.A.E.

Other entities consolidated by the Group based on an assessment of control are as follows:

	Nature of business
Group tranche of Emblem Finance Company No. 2 Limited	SPE for asset securitization
Emirates NBD Global Markets Limited	SPE for asset securitization
ENBD Asset Finance Company No.1 Limited	SPE for asset securitization
ENBD Asset Finance Company No.2 Limited	SPE for asset securitization
Emirates NBD Tier 1 Limited	SPE for asset securitization
Emirates NBD 2014 Tier 1 Limited	SPE for asset securitization
EIB Sukuk Company Limited	SPE for asset securitization
EI Funding Limited	SPE for asset securitization

37 OPERATING LEASES

At 31 December, the Group's non-cancellable operating lease rentals are payable as follows:

	2017 AED 000	2016 AED 000
Less than one year	43,649	46,676
Between one and five years	147,200	120,227
More than five years	177,416	93,787
	368,265	260,690

38 COMMITMENTS AND CONTINGENCIES

(a) At 31 December, the Groups commitments and contingencies are as follows:

	2017 AED 000	2016 AED 000
Letters of credit	11,489,707	9,726,912
Guarantees	48,801,287	47,168,713
Liability on risk participations	1,161,869	256,183
Irrevocable loan commitments*	25,279,231	29,099,863
	86,732,094	86,251,671

* Irrevocable loan commitments represent a contractual commitment to permit draw downs on a facility within a defined period subject to conditions precedent and termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled the total contract amounts do not necessarily represent exact future cash requirements.

(b) Acceptance

Under IAS 39, acceptances are recognised on balance sheet with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

(c) Capital Commitments

The Group has commitments as at 31 December 2017 for branch refurbishments and automation projects of AED 348.5 million (2016: AED 335.7 million).

39 RELATED PARTY TRANSACTIONS

Emirates NBD Group is partly owned by Investment Corporation of Dubai (55.8%), a company in which the Government of Dubai is the majority shareholder.

Deposits from and loans to government related entities, other than those that have been individually disclosed, amount to 7% (2016: 6%) and 6% (2016: 6%) respectively, of the total deposits and loans of the Group. These entities are independently run business entities, and all financial dealings with the Group are on normal commercial terms.

The Group has also entered into transactions with certain other related parties who are non government related entities. Such transactions were also made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Related party balances and transactions are carried out on normal commercial terms and are as follows:

	2017 AED 000	2016 AED 000
Loans and receivables:		
To majority shareholder of the parent	139,581,859	130,578,874
To parent	1,037,082	1,470,482
To directors and related companies	2,259,083	2,287,572
To associates and joint ventures	420,953	44,410
	143,298,977	134,381,338

	2017 AED 000	2016 AED 000
Customer and Islamic deposits:		
From majority shareholder of the parent	2,891,100	2,356,193
From parent	2,917,016	3,955,674
From associates and joint ventures	636,983	238,662
	6,445,099	6,550,529

39 RELATED PARTY TRANSACTIONS (continued)

	2017 AED 000	2016 AED 000
Investment in Government of Dubai bonds	85,744	36,122
Loans to and investment in funds managed by the Group	-	235,942
Commitments to associates and joint ventures	24,870	20,989
Payments made to associates and joint ventures	174,189	155,077
Payments received from associates and joint ventures	4,915	4,915
Payments made to other related parties	35,440	49,580
Fees received in respect of funds managed by the Group	39,529	59,393
Interest paid to funds managed by the Group	3,693	11,882
Interest (paid by) / paid to joint ventures	4,290	3,851
Directors sitting fee	11,361	9,208
Key management compensation:		
Short term employment benefits	58,827	64,550
Post employment benefits	1,292	1,221
	60,119	65,771

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

No impairment losses have been recorded against balances outstanding during the year with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relations at the year end.

40 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The Group's financial position, before taking into amount any collateral held or other credit enhancement, can be analysed by the following regions:

31 December 2017	UAE	Other GCC	International	Total
	AED 000	AED 000	AED 000	AED 000
ASSETS				
Cash and deposits with Central Bank	66,277,771	3,483,854	2,090,993	71,852,618
Due from banks	9,421,589	4,882,130	35,422,416	49,726,135
Trading securities	511,544	408,385	2,635,368	3,555,297
Investment securities	2,570,955	4,644,223	8,277,767	15,492,945
Loans and receivables	242,815,892	2,566,680	12,222,094	257,604,666
Islamic financing receivables	42,916,262	3,570,901	785	46,487,948
Investments in associates and joint ventures	1,624,330	-	-	1,624,330
Positive fair value of derivatives	695,985	151,169	2,004,366	2,851,520
Investment properties	537,680	-	-	537,680
Customer acceptances	4,172,633	674,765	1,264,549	6,111,947
Property and equipment	2,078,313	31,009	333,511	2,442,833
Goodwill and intangibles	5,495,528	-	192,675	5,688,203
Other assets	5,735,803	392,021	268,337	6,396,161
TOTAL ASSETS	**384,854,285**	**20,805,137**	**64,712,861**	**470,372,283**
LIABILITIES				
Due to banks	7,875,153	4,880,914	8,555,126	21,311,193
Customer deposits	223,725,908	12,093,045	29,893,963	265,712,916
Islamic customer deposits	50,432,170	9,632,148	751,067	60,815,385
Debt issued and other borrowed funds	-	-	39,788,848	39,788,848
Sukuk payable	5,526,649	-	-	5,526,649
Negative fair value of derivatives	617,039	254,855	1,380,601	2,252,495
Customer acceptances	4,172,633	674,765	1,264,549	6,111,947
Other liabilities	8,581,828	319,989	589,496	9,491,313
Total equity	59,361,537	-	-	59,361,537
TOTAL LIABILITIES AND EQUITY	**360,292,917**	**27,855,716**	**82,223,650**	**470,372,283**
Geographical distribution of letters of credit and guarantees	51,461,822	5,979,898	2,849,274	60,290,994
31 December 2016				
Geographical distribution of assets	365,255,949	26,499,000	56,249,063	448,004,012
Geographical distribution of liabilities and equity	337,900,483	19,011,916	91,091,613	448,004,012
Geographical distribution of letters of credit and guarantees	46,390,080	6,277,373	4,228,172	56,895,625

41 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and carrying values:

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

31 December 2017	Designated at fair value through profit or loss AED 000	Held-to-maturity AED 000	Available-for-sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Total carrying value* AED 000
Financial assets							
Due from banks	-	-	-	-	49,726,135	-	49,726,135
Trading securities	3,555,297	-	-	-	-	-	3,555,297
Investment securities	5,910	1,178,221	14,308,814	-	-	-	15,492,945
Loans and receivables	-	-	-	257,604,666	-	-	257,604,666
Islamic financing receivables	-	-	-	46,487,948	-	-	46,487,948
Investments in associates and joint ventures	-	-	-	-	1,624,330	-	1,624,330
Positive fair value of derivatives	2,436,184	-	-	-	-	415,336	2,851,520
Others	-	-	-	-	79,456,812	-	79,456,812
	5,997,391	1,178,221	14,308,814	304,092,614	130,807,277	415,336	456,799,653
Financial liabilities							
Due to banks	-	-	-	-	21,311,193	-	21,311,193
Customer deposits	-	-	-	-	265,712,916	-	265,712,916
Islamic customer deposits	-	-	-	-	60,815,385	-	60,815,385
Debt issued and other borrowed funds	-	-	-	-	39,788,848	-	39,788,848
Sukuk payable	-	-	-	-	5,526,649	-	5,526,649
Negative fair value of derivatives	1,948,648	-	-	-	-	303,847	2,252,495
Others	-	-	-	-	15,603,260	-	15,603,260
	1,948,648	-	-	-	408,758,251	303,847	411,010,746

*The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

41 FINANCIAL ASSETS AND LIABILITIES (continued)

31 December 2016	Designated at fair value through profit or loss	Held-to-maturity	Available-for-sale	Loans and receivables	Amortised cost	Hedging instruments	Total carrying value*
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Financial assets							
Due from banks	-	-	-	-	57,082,148	-	57,082,148
Trading securities	1,575,279	-	-	-	-	-	1,575,279
Investment securities	158,014	1,219,689	12,195,919	-	-	-	13,573,622
Loans and receivables	-	-	-	242,612,617	-	-	242,612,617
Islamic financing receivables	-	-	-	47,783,692	-	-	47,783,692
Investments in associates and joint ventures	-	-	-	-	1,680,362	-	1,680,362
Positive fair value of derivatives	3,081,512	-	-	-	-	72,460	3,153,972
Others	-	-	-	-	67,091,720	-	67,091,720
	4,814,805	1,219,689	12,195,919	290,396,309	125,854,230	72,460	434,553,412
Financial liabilities							
Due to banks	-	-	-	-	18,902,477	-	18,902,477
Customer deposits	-	-	-	-	254,698,202	-	254,698,202
Islamic customer deposits	-	-	-	-	56,054,237	-	56,054,237
Debt issued and other borrowed funds	-	-	-	-	38,695,734	-	38,695,734
Sukuk payable	-	-	-	-	7,368,138	-	7,368,138
Negative fair value of derivatives	2,415,689	-	-	-	-	409,019	2,824,708
Others	-	-	-	-	15,599,598	-	15,599,598
	2,415,689	-	-	-	391,318,386	409,019	394,143,094

* The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

41 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair Value of financial instruments

The table below analyses financial instruments measured at fair value on a recurring basis. The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in principal markets for identified assets or liabilities.
- Level 2: valuation using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: valuation using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

31 December 2017	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Trading securities				
Debt Securities	3,507,265	36,725	-	3,543,990
Investment in equities	11,307	-	-	11,307
Others	-	-	-	-
	3,518,572	36,725	-	3,555,297
Investment Securities				
AVAILABLE-FOR-SALE:				
Debt Securities	13,137,948	128,427	-	13,266,375
Investment in equities	113,827	297	655,431	769,555
Others	-	95,408	177,476	272,884
	13,251,775	224,132	832,907	14,308,814
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Others	-	5,910	-	5,910
	-	5,910	-	5,910
Derivatives held for trading				
Positive fair value of derivatives	-	2,436,184	-	2,436,184
Derivatives held as cash flow hedges:				
Interest rate swaps	-	379,847	-	379,847
Derivatives held as fair value hedges:				
Interest rate swaps	-	35,489	-	35,489
Derivatives held as hedge of a net investment in foreign operations:				
Forward foreign exchange contracts	-	-	-	-
	-	2,851,520	-	2,851,520
Derivatives held for trading				
Negative fair value of derivatives	-	(1,948,648)	-	(1,948,648)
Derivatives held as cash flow hedges:				
Interest rate swaps	-	(48,092)	-	(48,092)
Derivatives held as fair value hedges:				
Interest rate swaps	-	(246,596)	-	(246,596)
Derivatives held as hedge of a net investment in foreign operations:				
Forward foreign exchange contracts	-	(9,159)	-	(9,159)
	-	(2,252,495)	-	(2,252,495)
	16,770,347	865,792	832,907	18,469,046

41 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Available for sale financial assets	Financial assets designated at fair value through profit or loss	Financial assets held for trading	TOTAL
	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2017	1,106,579	-	-	1,106,579
Total gains or losses:				
- in profit or loss	-	-	-	-
- in other comprehensive income	22,748	-	-	22,748
Purchases	-	-	94,016	94,016
Issues	-	-	-	-
Settlements and other adjustments	(302,105)	-	(94,016)	(396,121)
Transfers into Level 3	5,685	-	-	5,685
Transfers out of Level 3	-	-	-	-
Balance as at 31 December 2017	832,907	-	-	832,907

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. The Group employs valuation techniques, depending on the instrument type and available market data. For example, in the absence of active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile and other factors. Favourable and unfavourable changes in the value of financial instruments are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgemental.

There have been no transfers between Level 1 and Level 2 during the years ended 31 December 2017 and 31 December 2016.

41 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

31 December 2016	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Trading securities				
Debt Securities	1,474,010	55,088	-	1,529,098
Investment in equities	-	-	-	-
Others	25,245	20,936	-	46,181
	1,499,255	76,024	-	1,575,279
Investment Securities				
AVAILABLE-FOR-SALE:				
Debt Securities	10,506,981	136,783	183,814	10,827,578
Investment in equities	183,470	149,993	700,518	1,033,981
Others	27	112,086	222,247	334,360
	10,690,478	398,862	1,106,579	12,195,919
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Others	151,046	6,968	-	158,014
	151,046	6,968	-	158,014
Derivatives held for trading				
Positive fair value of derivatives	-	3,081,512	-	3,081,512
Derivatives held as cash flow hedges:				
Interest rate swaps	-	69,027	-	69,027
Derivatives held as fair value hedges:				
Interest rate swaps	-	3,433	-	3,433
Derivatives held as hedge of a net investment in foreign operations:				
Forward foreign exchange contracts	-	-	-	-
	-	3,153,972	-	3,153,972
Derivatives held for trading				
Negative fair value of derivatives	-	(2,415,689)	-	(2,415,689)
Derivatives held as cash flow hedges:				
Interest rate swaps	-	(31,573)	-	(31,573)
Derivatives held as fair value hedges:				
Interest rate swaps	-	(377,446)	-	(377,446)
Derivatives held as hedge of a net investment in foreign operations:				
Forward foreign exchange contracts	-	-	-	-
	-	(2,824,708)	-	(2,824,708)
	12,340,779	811,118	1,106,579	14,258,476

41 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Available for sale financial assets	Financial assets designated at fair value through profit or loss	Financial assets held for trading	TOTAL
	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2016	1,270,578	-	177,669	1,448,247
Total gains or losses:				
- in profit or loss	-	-	-	-
- in other comprehensive income	15,814	-	-	15,814
Purchases	-	-	-	-
Issues	-	-	-	-
Settlements and other adjustments	(207,889)	-	(177,669)	(385,558)
Transfers into Level 3	28,076	-	-	28,076
Transfers out of Level 3	-	-	-	-
Balance as at 31 December 2016	1,106,579	-	-	1,106,579

42 NOTES TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

		2017 AED 000	2016 AED 000
(a)	Analysis of changes in cash and cash equivalents during the year		
	Balance at beginning of year	43,633,819	31,828,539
	Net cash inflow	(106,410)	11,805,280
	Balance at end of year	43,527,409	43,633,819
(b)	Analysis of cash and cash equivalents		
	Cash and deposits with Central Bank	71,852,618	57,214,660
	Due from banks	49,726,135	57,082,148
	Due to banks	(21,311,193)	(18,902,477)
		100,267,560	95,394,331
	Less : deposits with Central Bank for regulatory purposes	(31,982,679)	(29,477,318)
	Less : certificates of deposits / placements with Central Bank maturing after three months	(13,119,093)	(9,217,975)
	Less : amounts due from banks maturing after three months	(17,155,123)	(18,931,017)
	Add : amounts due to banks maturing after three months	5,516,744	5,865,798
		43,527,409	43,633,819
(c)	Adjustment for non cash items		
	Impairment loss on loans and receivables	1,704,447	1,481,521
	Impairment loss on Islamic financing receivables	574,927	1,022,251
	Impairment loss on investment securities	47,227	121,511
	Impairment loss on due from banks	8,870	-
	Amortisation of fair value	102,717	97,382
	Discount on Investment securities	57,969	56,107
	Unrealised foreign exchange gain	(207,988)	(32,726)
	Amortisation of intangibles	37,000	63,990
	Depreciation of property and equipment / Investment property	366,664	324,768
	Share of profit / loss of associates and joint ventures	(72,167)	(135,138)
	Unrealized (gain)/loss on investments	15,701	(42,933)
	Unrealized (gain)/loss on FV Hedged item	122,525	(5,833)
	Gain on sale of investment properties	-	(100,593)
	Gain on sale of properties (inventories)	(16,220)	(29,368)
		2,741,672	2,820,939

43 CAPITAL MANAGEMENT AND ALLOCATION

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

Minimum Capital Requirements

As per Basel II capital requirements, the Central Bank of UAE requires the Group to maintain a prescribed minimum ratio of total capital to total risk-weighted assets of 12% (of which Tier I to be 8%).

The tiered components of Bank’s regulatory capital comprise of:

- Tier I capital includes share capital, Tier I capital notes, share premium, legal, statutory and other reserves, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and

- Tier II capital includes qualifying subordinated debt, undisclosed reserve, and fair value reserve.

The Group is compliant with the Standardised Approach for Credit, Market and Operational Risk (Pillar I) with effect from 31st December 2007.

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

	2017 AED 000	2016 AED 000
Tier I capital		
Issued capital	5,557,775	5,557,775
Share premium reserve	12,270,124	12,270,124
Legal and statutory reserve	2,778,888	2,778,888
Other reserves	1,650,445	1,766,524
Retained earnings	27,403,808	21,938,659
Tier I capital notes	9,477,076	9,477,076
Non-controlling interest	8,028	7,256
Total tier I capital	59,146,144	53,796,302
Less : Goodwill and intangibles	(5,688,203)	(5,827,150)
Less : Treasury shares	(46,175)	(46,175)
Less: Significant investment in insurance / commercial entities	(378,652)	(86,863)
Total	53,033,114	47,836,114

43 CAPITAL MANAGEMENT AND ALLOCATION (continued)

	2017 AED 000	2016 AED 000
Tier II capital		
Undisclosed reserves / general provisions	7,611,048	7,019,697
Fair value reserve	117,706	49,856
Hybrid (debit/equity) capital instruments	-	-
Subordinated debt	3,752,068	3,752,068
Less : Significant investment in insurance / commercial entities	(378,652)	(86,863)
Total	11,102,170	10,734,758
Of which: Eligible tier II capital	6,463,183	6,532,725
Total regulatory capital	59,496,297	54,368,839

RISK WEIGHTED EXPOSURE

	2017 AED 000	2016 AED 000
Credit risk	237,764,915	225,413,053
Market risk	7,832,945	5,048,821
Operational risk	26,381,543	25,706,714
Total	271,979,403	256,168,588

Capital Ratio:		
Total regulatory capital as a percentage of total risk weighted assets	21.88%	21.22%
Total tier I regulatory capital as a percentage of total risk weighted assets	19.50%	18.67%

43 CAPITAL MANAGEMENT AND ALLOCATION (continued)

BASEL III CAPITAL RATIO

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

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

For 2017, CCB is effective in transition arrangement and is required to be maintained at 1.25% of the Capital base. For 2018, CCB will be required at 1.88% and from 2019; it will be required to be maintained at 2.5% of the Capital base. CCyB is not yet in effect and is not required to be maintained for 2017.

Over and above additional capital buffers, the Group has been classified as Domestic Systematically Important Bank (D-SIB) and is required to maintain an additional D-SIB buffer of 0.75% of the Capital base for 2017. This buffer will increase to 1.5% of the Capital base by 2019.

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

Capital Ratio	2017	Minimum* capital requirement 2017	Minimum* capital requirement by 2019
a. Total for consolidated Group	**21.98%**	**12.50%**	**14.50%**
b. Tier 1 ratio for consolidated Group	**19.69%**	**10.50%**	**12.50%**
c. CET1 ratio for consolidated Group	**16.44%**	**9.00%**	**11.00%**

* Including D-SIB buffer

44 FUND MANAGEMENT

The Group manages a number of funds which are not consolidated in the financial statements. The funds have no recourse to the general assets of the Group and further the Group has no recourse to the assets of the funds. Third party funds managed by the Group were AED 17,710 million at 31 December 2017 (2016: AED 14,138 million).

45 ASSETS HELD IN FIDUCIARY CAPACITY

The Group holds assets in a fiduciary capacity and provides custodian services for some of its customers. The underlying assets held in a custodial or fiduciary capacity are excluded from the Group consolidated financial statements.

46 RISK MANAGEMENT

The primary risks to the Group arise from extending credit to wholesale and consumer banking customers. The Group is also exposed to a range of other risk types such as market, operational, liquidity, compliance, reputational, country and legal that drive the direction of its risk management strategy, product range and risk diversification strategies.

Risk management framework:

The framework enables the Group to manage group-wide risks with the objective of maximizing returns while adhering to our risk appetite.

The Group uses a three lines of defense model to support its approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities. The three lines of defense are summarized below:

- Business units: required to ensure the effective management of risks within the scope of their direct organizational responsibilities. All employees within the business units are sufficiently trained and have access to appropriate tools to ensure risk-taking is controlled. Each business unit primarily owns the risk that it underwrites and is equally responsible for designing and implementing necessary controls to mitigate risks emanating from its activities.
- Risk control units: responsible for implementing policies and procedures, monitoring risks taken to ensure all risks are within the Group's risk appetite. Appropriate controls are designed and implemented with adequate reporting in place to anticipate future risks and improve the level of preparedness across the management chain.
- Group Internal Audit: provides independent assurance and reports its findings to all relevant management and governance bodies, accountable line managers, relevant oversight function and committee(s) of the Board.

Risk governance

The risk governance structure of the group ensures central oversight and control with clear accountability for and ownership of risk.

The Board of Directors ("the Board") has the ultimate responsibility for setting Group's risk appetite and for the establishment and oversight of the Group's risk management framework. This is managed through a number of committees; namely Board Risk Committee (BRC), Board Credit & Investment Committee (BCIC) and Board Audit Committee (BAC). The management level committees also actively manage risk particularly the Group Risk Committee (GRC), Management Credit Committee (MCC), Management Investment Committee (MIC) and Group Asset Liability Management Committee (Group ALCO).

(BRC comprises of members of the Board and is responsible for risk oversight responsibilities of the Board with regards to risk governance and risk appetite and the risk management framework that support it. The BRC receives reports on risk management including our portfolio trends, policies and standards, stress testing, liquidity and capital adequacy and is authorized to investigate or seek any information relating to any activity within its terms of reference.

BCIC is responsible for approval of credit and investment decisions above the MCC and MIC's authority.

The primary role BAC is to have oversight and review of financial, audit and internal control issues as well as oversee the independence and performance of group's external and internal auditors.

46 RISK MANAGEMENT (continued)

Risk governance (continued)

MCC is management level committee which carries out credit lending decisions including but not limited to approval and renewal of credit facilities, review and monitor portfolio performance, decisions on debt settlement, provisioning write off and amendments to pricing, grades and waiver.

The role of the MIC is to support the Board in the management of the Investment Portfolios of the Group to ensure they conform to the strategic vision of the same and support the Board in monitoring and reporting the performance of these portfolios.

The Group ALCO is responsible for balance sheet management and quality of the funding plan as well as the management of capital and the establishment of, and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and interest rate risk. The committee also approves the contingency funding plan as well as the funds transfer pricing among other things.

The GRC is responsible for the management of all risks other than those delegated to MCC, MIC and Group ALCO and ensures the effective management of risk throughout the group in support of the group's business strategy and group's risk appetite. The committee approves risk policies and analytical models to ensure effective management of credit, market, operational, business continuity and reputational, compliance, legal and other risks confronting the group.

The risk function

The Group's risk management framework is managed by the Group Risk management function ("Group Risk"), headed by the Group Risk Chief Officer ("CRO"). The function is independent of the business (origination, trading and sales functions) to ensure that the necessary balance in risk/return decisions is not compromised by pressures for better results in terms of revenues and to ensure transparency of decisions in accordance with group standards and policies.

Group Risk assists in controlling and actively managing the Group's overall risk profile. The role of the function is:

- To ensure the risk management framework is effectively communicated and implemented across the Group and is appropriate to the Group's activities;
- To exercise direct ownership for various risk types including but not limited to credit, market, country, operational, reputational risks;
- To ensure that the Group's business strategies, risk policies, procedures and methodologies are consistent with the Group's risk appetite;
- To ensure the integrity of the Group's risk/return decisions guaranteeing their transparency;
- To ensure that appropriate risk management architecture and systems are developed and implemented.

46 RISK MANAGEMENT (continued)

Risk appetite

The Risk Appetite Framework (The Framework) is a core element to control and manage the risk, the group organization is willing to assume in the pursuit of its objectives. Structured within an organization framework, risk appetite seeks to reinforce the risk culture through providing a coherent understanding of level of risks it is prepared to take across the organization.

The Framework is established to cover the material risks faced by the Group. The corresponding risk appetite for each risk type (or risk family) is to be progressively operationalized through the respective risk framework or standards. This is done in the context of ensuring the Group remains within the risk appetite while optimizing returns on a risk-adjusted basis.

Risk appetite is linked to strategic objectives through risk appetite metrics.

Credit Risk

Credit risk is defined as risk of financial loss arising from the failure of the customer or counterparty, to meet its contractual obligations to the Group. It can arise from both funded and non-funded transactions that are contingent in nature.

Credit risk management:

Credit risk management approach is based on the foundation of independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structures for business segments. Standard procedures specific to businesses are set up to manage various risks across different business segments, products and portfolios.

The Group's credit policy focuses on the core credit principles and details, specific policy guidelines, lending parameters, control and monitoring requirements, problem loan identification, management of high risk customers and provisioning.

Wholesale Banking credit risk management:

Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers amongst other things the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends, customers' credit worthiness and standing within the industry.

The credit facility administration process is undertaken by an independent function to ensure proper execution of all credit approvals, maintenance, lodgment of documentation and proactive controls over maturities, expiry of limits and collaterals.

Operations are managed by independent units responsible for processing transactions in line with credit approvals and standard operating guidelines.

Management of Early Alert (EA), Watch List (WL) & Impaired Non Performing Loans (NPL) - The Group has a well-defined process for identification of EA, WL & NPL accounts and dealing with them effectively. There are policies which governs credit grading of EA, WL & NPL accounts, interest suspension and provisioning, in line with IFRS and UAE Central Bank guidelines.

46 RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit risk management (continued)

Consumer banking credit risk management:

The Group has a structured management framework for Consumer Banking risk management. The framework enables the Group in identification and evaluation of the significance of all credit risks that the Group faces, which may have an adverse material impact on its financial position.

In the Consumer Banking portfolio, losses stem from outright default due to inability or unwillingness of a customer to meet commitments in relation to lending transactions.

The Group's provisioning policy, which is in line with the IFRS and the guidelines laid down by the Central Bank of UAE, allows the Group to prudently recognize impairment on its retail portfolios.

Risk analytics

The Group monitors its risk parameters against the Group's Risk Appetite limits on a quarterly basis and its capital adequacy ratios are benchmarked against the regulatory requirement and internal Risk Appetite limit.

Credit Approving Authorities

The Board and the BCIC have delegated authority to the MCC, the Retail Credit Committee (RCC) and members of senior management to facilitate and effectively manage the business. However, BCIC has retained the ultimate authority to approve credits beyond MCC authority.

Classification of Loans and Advances

Internal rating models are used across various business segments to assess credit quality of the borrowers and assign risk grades on the Master Rating Scale on an ongoing basis. All borrowers are mapped to risk grades based on their probability of default. Highest credit quality customers have the lowest probability to default. These internal risk grades are mapped to Central Bank of the UAE categorization.

Loans are classified as normal or performing where the willingness and ability of a customer to pay off the loan is as per the contractual agreement. Loans with renegotiated terms (subject to no concessions on the principal or interest) continue to be reported as normal loans.

When the borrower's financial condition and credit worthiness show some weaknesses requiring more than normal attention but not allocation of provisions, the loans are classified as watch-list and reported to the Central Bank.

46 RISK MANAGEMENT (continued)

Credit Risk (continued)

Impairment assessment

The credit portfolio is reviewed on regular basis for impairment. The accrual or non-accrual status of the asset is re-assessed and appropriately risk graded as per credit policy. Impaired assets are classified as such and reported at least on quarterly intervals to the Board sub committees.

Assessment of specific impairment

For Wholesale Banking, the Group determines the impairment for each loan or advance on an individual basis by exercising mature judgment in line with Central Bank of the UAE and IFRS requirements. The Group classifies those accounts where recovery is considered doubtful and ensures provisions are made accordingly. The impairment losses are evaluated on regular basis. Specific impairment is assessed when an exposure shows a significant perceived decline in the credit quality or when an obligation is past due or over-limit for more than 90 days. Impaired accounts are classified as Substandard, Doubtful or Loss.

For Consumer Banking, loans are classified as impaired if the exposure is past due for more than 90 days.

Assessment of collective impairment

Provisions for collective impairment are made based on IFRS and Central Bank of the UAE guidelines. These are impairments that cannot be identified with an individual loan and are estimated on a portfolio basis.

Write offs

Wholesale banking facilities where full loss of principal is expected and full recovery of interest and fees is not expected are written off only after all legal and remedial efforts to recover from the customers are exhausted after obtaining appropriate approvals.

Non performing consumer loans are written off at 181 days past due. All receivables remain active on the loan management system for recovery and any legal strategy the Group may deem fit to use.

Credit risk monitoring:

Wholesale Banking: the Group's exposures are continuously monitored through a system of triggers and early warning signals. These are supplemented by monitoring of account conduct, assessment of collateral and market intelligence and early alerts. Early Alert accounts are identified based on oversight, vigilance and risk triggers. Account strategy and action plans on these accounts are regularly monitored and discussed in the Early Alert Committee meetings.

Consumer banking: risks of the Group's loan portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

Group credit risk mitigation strategy:

The Group operates within prudential exposure ceilings set by the Board in line with UAE Central Bank guidelines. There are well laid out processes for exception management and escalation.

The Group has adopted measures to diversify the exposures to various sectors. Diversification is achieved by limiting concentration through setting customer, industry and geographical limits.

46 RISK MANAGEMENT (continued)

Credit Risk (continued)

Group credit risk mitigation strategy (continued):

The risk transfer in the form of syndicated loans, risk participation agreements with other banks, credit default swaps and sale of loans are globally accepted practices followed by the Group, where appropriate, to limit its exposure.

Collateral Management

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed and the Group seeks to ensure enforceability of the collateral. Major categories of collaterals include cash/ fixed deposits, inventories, shares, guarantees (corporate, bank and personal guarantees), immovable properties, receivables, gold and vehicles.

Collaterals are revalued regularly as per the Group's credit policy. In addition, ad hoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered. Security structures and legal covenants are also subject to regular review.

Loans and receivables

	2017 AED 000	2016 AED 000
Corporate Portfolio – Performing	229,458,929	213,460,512
Retail Portfolio – Performing	34,020,825	33,972,161
Impaired Loans	14,772,946	14,773,140
Gross Loans	278,252,700	262,205,813

Corporate Portfolio – Performing includes AED 4,650 million (2016: AED 4,359 million) for exposure against watchlist customers.

Islamic Financing Receivables

	2017 AED 000	2016 AED 000
Corporate Portfolio – Performing	23,214,568	22,463,284
Retail Portfolio – Performing	25,015,117	27,271,267
Impaired Loans	5,538,151	5,492,156
Gross Loans	53,767,836	55,226,707

Corporate Portfolio – Performing includes AED 328 million (2016: AED 443 million) for exposure against watchlist customers.

46 RISK MANAGEMENT (continued)

ANALYSIS BY ECONOMIC ACTIVITY FOR ASSETS:

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

	2017 AED 000			2016 AED 000		
	Loans and Receivables	Islamic Financing	Others	Loans and Receivables	Islamic Financing	Others
Manufacturing	6,393,109	1,691,366	147,004	6,686,418	1,854,795	-
Construction	5,696,969	2,168,691	360,477	5,679,853	2,404,716	440,738
Trade	13,897,772	6,349,359	-	13,026,204	5,540,975	-
Transport and communication	2,447,165	895,632	215,785	2,701,813	1,195,760	546,787
Services	5,124,307	1,690,464	739,126	2,558,424	2,787,631	1,851,585
Sovereign	139,986,832	558,814	12,396,349	130,736,312	172,025	8,018,726
Personal	35,315,689	25,557,267	-	33,720,098	28,144,796	-
Real estate	35,296,763	9,384,740	1,539,249	32,067,944	10,666,440	-
Hotels and restaurants	2,666,805	82,019	-	3,558,801	11,922	-
Management of companies and enterprises	12,463,393	290,842	-	12,548,389	77,177	-
Financial institutions and investment companies	13,361,246	2,722,103	52,598,251	14,889,098	1,485,089	62,239,715
Others	5,602,650	2,376,539	2,402,466	4,032,459	885,381	813,860
Total Assets	278,252,700	53,767,836	70,398,707	262,205,813	55,226,707	73,911,411
Less: Deferred Income	-	(2,634,875)	-	-	(2,688,915)	-
Less: Allowances for impairment	(20,648,034)	(4,645,013)	-	(19,593,196)	(4,754,100)	-
	257,604,666	46,487,948	70,398,707	242,612,617	47,783,692	73,911,411

Others includes due from banks, investment securities, trading securities and investments in associates and joint ventures.

46 RISK MANAGEMENT (continued)

Classification of trading securities and investment securities as per their external ratings:

As of 31 December 2017

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
AAA	-	-	14,503	-	14,503
AA- to AA+	-	10,524	5,571,486	691,623	6,273,633
A- to A+	-	5,653	3,395,909	1,448,688	4,850,250
Lower than A-	-	1,151,323	3,802,642	834,968	5,788,933
Unrated	5,910	10,721	1,524,274	580,018	2,120,923
	5,910	1,178,221	14,308,814	3,555,297	19,048,242

Of which issued by:

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
Governments	-	1,129,751	9,256,205	2,010,393	12,396,349
Public sector enterprises	-	-	1,709,986	473,695	2,183,681
Private sector and others	5,910	48,470	3,342,623	1,071,209	4,468,212
	5,910	1,178,221	14,308,814	3,555,297	19,048,242

46 RISK MANAGEMENT (continued)

As of 31 December 2016

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
AAA	-	-	58,520	-	58,520
AA- to AA+	-	10,671	4,218,748	606,256	4,835,675
A- to A+	-	97,512	2,757,174	450,309	3,304,995
Lower than A-	-	1,100,461	3,626,643	264,956	4,992,060
Unrated	158,014	11,045	1,534,834	253,758	1,957,651
	158,014	1,219,689	12,195,919	1,575,279	15,148,901

Of which issued by:

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
Governments	-	1,059,264	6,660,801	298,661	8,018,726
Public sector enterprises	-	-	1,578,633	368,439	1,947,072
Private sector and others	158,014	160,425	3,956,485	908,179	5,183,103
	158,014	1,219,689	12,195,919	1,575,279	15,148,901

46 RISK MANAGEMENT (continued)

Risk gross maximum exposure:

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

	2017 AED 000	2016 AED 000
Deposits with Central Bank	68,228,114	54,137,851
Due from banks	49,726,135	57,082,148
Trading securities	3,543,990	1,575,279
Investment securities	14,444,596	12,047,267
Loans and receivables	257,604,666	242,612,617
Islamic financing receivables	46,487,948	47,783,692
Positive fair value of derivatives	2,851,520	3,153,972
Customer acceptances	6,111,947	6,941,585
Total (A)	448,998,916	425,334,411
Contingent liabilities	61,452,863	57,151,808
Irrevocable loan commitments	25,279,231	29,099,863
Total (B)	86,732,094	86,251,671
Total credit risk exposure (A + B)	535,731,010	511,586,082

46 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial assets.

31 December 2017

			Of which past due but not impaired on the reporting date				Of which individually impaired			
Type of receivable	Carrying amount AED 000	Of which neither impaired nor past due on reporting date AED 000	<30 days AED 000	30-60 days AED 000	60-91 days AED 000	> 91days AED 000	Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	49,726,135	49,726,135	-	-	-	-	31,433	(11,138)	(20,295)	-
Loans and receivables:	257,604,666	248,155,868	5,198,988	380,058	237,993	2,479,463	20,522,036	(5,749,090)	(13,620,650)	1,152,296
Corporate banking	223,811,215	215,845,100	4,153,163	195,730	98,590	2,479,192	19,114,217	(5,161,082)	(12,913,695)	1,039,440
Consumer banking	33,772,980	32,310,768	1,045,825	184,328	139,403	271	1,356,462	(588,008)	(676,069)	92,385
Treasury - other debt securities	20,471	-	-	-	-	-	51,357	-	(30,886)	20,471
Islamic financing receivables	46,487,948	42,200,589	1,752,456	567,583	215,616	274,902	6,449,308	(911,157)	(4,061,349)	1,476,802
Trading and investment securities:	19,048,242	18,558,294	-	-	-	-	1,530,459	-	(1,040,511)	489,948
Government debt	12,396,349	12,396,349	-	-	-	-	-	-	-	-
Quoted - Other debt securities	5,542,155	5,542,155	-	-	-	-	3,690	-	(3,690)	-
Unquoted - Debt securities	50,082	50,082	-	-	-	-	90,095	-	(90,095)	-
Other securities	1,059,656	569,708	-	-	-	-	1,436,674	-	(946,726)	489,948

46 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS (continued):

31 December 2016

			Of which past due but not impaired on the reporting date				Of which individually impaired			
Type of receivable	Carrying amount AED 000	Of which neither impaired nor past due on reporting date AED 000	<30 days AED 000	30-60 days AED 000	60-91 days AED 000	> 91days AED 000	Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	57,082,148	57,082,148	-	-	-	-	38,287	(14,175)	(24,112)	-
Loans and receivables:	242,612,617	222,264,494	16,737,510	870,755	948,777	373,831	19,589,652	(4,816,512)	(13,355,890)	1,417,250
Corporate banking	208,866,764	190,160,615	15,546,157	654,853	813,683	369,636	18,357,904	(4,320,698)	(12,715,386)	1,321,820
Consumer banking	33,733,742	32,103,386	1,191,353	215,902	135,094	4,195	1,168,099	(495,814)	(588,473)	83,812
Treasury - other debt securities	12,111	493	-	-	-	-	63,649	-	(52,031)	11,618
Islamic financing receivables	47,783,692	41,471,261	3,121,684	937,442	381,451	351,407	6,354,568	(862,412)	(3,971,709)	1,520,447
Trading and investment securities:	15,148,901	13,993,485	-	-	-	-	2,378,879	-	(1,223,463)	1,155,416
Government debt	8,018,726	8,018,726	-	-	-	-	-	-	-	-
Quoted - Other debt securities	5,361,206	5,265,842	-	-	-	-	101,873	-	(6,509)	95,364
Unquoted - Debt securities	196,433	183,810	-	-	-	-	119,248	-	(106,625)	12,623
Other securities	1,572,536	525,107	-	-	-	-	2,157,758	-	(1,110,329)	1,047,429

46 RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that the value of financial instruments in the Group's books – with the inclusion of some other financial assets and liabilities - will produce a loss because of changes in future market conditions.

The Group takes on risks in the pursuit of its strategic and business objectives. The Group monitors and manages the following categories of market risk:

1. Interest Rate Risk: losses in value due to changes in the level, slope and curvature of yield curves, the volatility of interest rates and changes in credit spreads;
2. FX Risk: losses in value due to exposures to changes in spot prices, forward prices and volatilities of currency rates;
3. Commodity Price Risk: losses in value due to exposures to changes in spot prices, forward prices and volatilities of commodities such as petrochemicals, base and precious metals, and food stocks.

Respective portfolio managers accountable for managing market risk within the approved limits. These managers have extensive knowledge of markets and products, their risk exposures and of the financial instruments available to hedge their exposures.

The Group's risk exposures to market risk are segregated into Trading and Banking Books. The Trading Book include those financial instruments held with trading intent arising from market-making, position-taking and other so designated financial instruments accounted for at fair value daily. The Banking Book include financial instruments not held with trading intent that arise from the management of Interest Rate risk and FX risk from the Group's consumer and commercial banking assets and liabilities, and other financial investments designated as either Available For Sale or Held To Maturity.

46 RISK MANAGEMENT (continued)

Market risk (continued)

Market Risk Oversight and Management Process

As part of the Group's enterprise-wide risk management framework, an extensive governance processes is applied to the market risk taking activities. This governance framework includes, inter alia:

- Approval by the Board of a set of risk limits with appropriate monitoring, reporting and limits excesses' escalation procedures.
- Independent valuation of financial instruments in the Trading Book and measurement of market risk;
- A comprehensive set of policies, procedures and limits;
- Monitoring a wide range of risk metrics appropriate for the respective trading activities - such as risk sensitivities, Gross and Net open positions, Value-at-Risk (VaR) and stop-loss limits;

The Group uses appropriate and independently validated market standard models for the revaluation and risk measurement of its linear and non-linear financial products and receives regular market information from independent market data providers in order to measure and monitor market risk.

Details of allocation of assets and liabilities subject to market risk between trading and non-trading portfolios are as follows:

	December 2017		
		Market risk measure	
		Trading portfolio	Non-trading portfolio
	AED 000	AED 000	AED 000
Assets subject to market risk			
Cash and deposits with Central Bank	71,852,618	-	71,852,618
Due from banks	49,726,135	-	49,726,135
Loans and receivables	257,604,666	-	257,604,666
Islamic financing receivables	46,487,948	-	46,487,948
Trading securities	3,555,297	3,555,297	-
Investment securities	15,492,945	5,910	15,487,035
Investments in associates and joint ventures	1,624,330	-	1,624,330
Positive fair value of derivatives	2,851,520	2,436,184	415,336
Liabilities subject to market risk			
Due to banks	21,311,193	-	21,311,193
Customer deposits	265,712,916	-	265,712,916
Islamic customer deposits	60,815,385	-	60,815,385
Debt issued and other borrowed funds	39,788,848	-	39,788,848
Sukuk payable	5,526,649	-	5,526,649
Negative fair value of derivatives	2,252,495	1,948,648	303,847

46 RISK MANAGEMENT (continued)

Market risk (continued)

Market Risk Oversight and Management Process (continued)

	December 2016		
		Market risk measure	
	AED 000	Trading portfolio AED 000	Non-trading portfolio AED 000
Assets subject to market risk			
Cash and deposits with Central Bank	57,214,660	-	57,214,660
Due from banks	57,082,148	-	57,082,148
Loans and receivables	242,612,617	-	242,612,617
Islamic financing receivables	47,783,692	-	47,783,692
Trading securities	1,575,279	1,575,279	-
Investment securities	13,573,622	158,014	13,415,608
Investments in associates and joint ventures	1,680,362	-	1,680,362
Positive fair value of derivatives	3,153,972	3,081,512	72,460
Liabilities subject to market risk			
Due to banks	18,902,477	-	18,902,477
Customer deposits	254,698,202	-	254,698,202
Islamic customer deposits	56,054,237	-	56,054,237
Debt issued and other borrowed funds		-	
Sukuk payable	38,695,734	-	38,695,734
Negative fair value of derivatives	7,368,138	-	7,368,138
	2,824,708	2,415,689	409,019

The impact of sensitivity analysis on Risk and Equity Price risk on the income statement and other comprehensive income is immaterial.

46 RISK MANAGEMENT (continued)

Market risk (continued)

Trading Book oversight by Group Market Risk (GMR)

GMR monitors the limits' utilization in the Trading Book of the Group on a daily basis through a multi-layered Limit Monitoring System which uses independently sourced data and reports from the GM&T IT systems. Depending on the trading exposure and as appropriate, GMR uses appropriate metrics including:

1. Non statistical metrics: Interest Rate sensitivity, (DV01/PV01), FX sensitivity (FX01), Net open/ Net Gross outstanding positions, Maximum notional and tenor measures, Derivatives' Greek sensitivities (Delta, Gamma, Vega), and Stop Loss limits;

2. Statistical metrics: Value-at-Risk (VaR), by Asset class as well as total for the whole Trading Book.

The Group is not significantly exposed to structural FX Risk - which is a component of market risk - since the majority of the assets and liabilities of the Group are denominated predominately in either AED or in USD-pegged currencies from other GCC countries.

Value-at-Risk

To better capture the multi-dimensional aspects of market risk, the Group's primary market risk metric is a statistical one, Value-at-Risk, which is used for short-term risk holding periods. VaR metrics are calculated daily for the specific asset classes, such as Interest Rate VaR, Foreign Exchange VaR and Total VaR for the whole Trading Book.

The Group's year-end VaR numbers reported below have been calculated using the following parameters:

- Statistical level of confidence: 99%
- Holding period: 1 business day
- Methodology: Full Revaluation, Historical Simulation using over 2 years of historical market data

* Note that the sum of asset class VaR metrics does not add up to the reported Total VaR metric due to diversification and cross correlation effects.

	2017 AED 000				2016 AED 000			
	Average	Maximum	Minimum	Actual*	Average	Maximum	Minimum	Actual*
By Asset class								
Trading								
Interest rate risk	5,972	15,553	2,454	12,034	3,695	8,965	2,390	2,532
Foreign exchange risk	9,528	29,134	2,442	12,081	8,039	15,855	3,005	3,232
Credit trading risk	1,103	3,291	150	1,244	1,096	3,330	125	379
Total	10,680	28,560	3,233	11,595	8,564	15,536	3,204	3,454

46 RISK MANAGEMENT (continued)

Market risk (continued)

Value-at-Risk (continued)

Major Currency-wise open positions of the Group are as follows:

	2017	2016
	Long / (Short)	Long / (Short)
	AED 000	AED 000
U.S. Dollar (USD)	(3,073,311)	(6,921,727)
Oman Riyal (OMR)	(492,500)	(146,296)
U.A.E Dirhams (UAE)	55,947	80,531
Saudi Riyal (SAR)	(543,313)	(551,989)
Qatar Riyal (QAR)	(3,246)	1,068,866
Egyptian Pound (EGP)	223,897	105,160
Bahraini Dinar (BHD)	(122,813)	122,902

Operational Risk

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

The Group's objective is to prevent major OpRisk losses and to protect the Group against any material damage. A Group-wide framework applying a pro-active approach to managing operational risk has been established. The Group has chosen a holistic approach to systematically identify, assess and manage operational risks across different products, processes, and client segments.

A comprehensive information security framework has been implemented to safeguard data and systems.

Requisite policies and processes are in place to report and monitor fraud.

The Group obtains comprehensive and tailored insurance cover to protect the Group against unexpected and substantial unforeseeable losses.

Business Continuity Management

Business Continuity Management (BCM) is defined as a "holistic management process that identifies potential threats to an organization and the impacts to business operations that those threats, if realized, might cause, and which provides a framework for building organizational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities."

The business continuity process across the Group is based on the international standard ISO22301:2012 (E). The BRC is responsible for providing oversight and strategy for Business Continuity Management.

46 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity Risk refers to the inability of the Group to fund an increase in assets and meet obligations as they become due (Structural Funding Risk), or the inability to convert assets into cash at reasonable prices (Market Liquidity Risk). The risk arises from mismatches in the amount and timings of cash flows.

Objectives and Governance structure

The objective of the Group's liquidity and funding management framework is to ensure that all foreseeable funding commitments (under both normal and stressed conditions) can be met when due, and that access to the wholesale markets is coordinated and cost effective. To this end, the Group maintains a diversified funding base comprising core consumer and corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by currency and maturity which are held to enable the Group to respond quickly and smoothly to unforeseen liquidity requirements.

Policies and Procedures

Specifically, liquidity and funding management process includes:

projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;

- mis-match analysis between assets and liabilities for different periods with a focus on shorter time frames. These gap reports are based on contractual cash flow, retention and decay assumptions for non-maturing assets and liabilities and potential liquidity demand through undrawn commitments;
- monitoring balance sheet liquidity and advances to deposits ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with back-up facilities;
- managing the concentration and profile of debt maturities;
- maintaining debt financing plans;
- monitoring customer depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of distress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crisis, while minimizing adverse long-term implications for the business.

46 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES:

The table below summarizes the maturity profile of the Group's assets and liabilities:

31 December 2017	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Undated and Over 5 years AED 000	Total AED 000
ASSETS						
Cash and deposits with Central Bank	58,733,525	13,119,093	-	-	-	71,852,618
Due from banks	32,571,012	15,433,435	919,295	356,841	445,552	49,726,135
Trading securities	379,146	1,476,018	362,733	858,904	478,496	3,555,297
Investment securities	2,150,234	1,622,860	2,270,644	3,725,976	5,723,231	15,492,945
Loans and receivables	146,223,540	19,557,084	25,915,770	19,884,073	46,024,199	257,604,666
Islamic financing receivables	11,445,483	8,284,074	8,720,984	5,451,171	12,586,236	46,487,948
Investments in associates and joint ventures	-	-	-	-	1,624,330	1,624,330
Positive fair value of derivatives	481,052	660,724	844,906	790,521	74,317	2,851,520
Investment properties	-	-	-	-	537,680	537,680
Customer acceptances	6,111,947	-	-	-	-	6,111,947
Property and equipment	-	-	-	-	2,442,833	2,442,833
Goodwill and Intangibles	-	-	-	-	5,688,203	5,688,203
Other assets	3,685,033	2,711,128	-	-	-	6,396,161
TOTAL ASSETS	261,780,972	62,864,416	39,034,332	31,067,486	75,625,077	470,372,283

46 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued):

31 December 2017	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Undated and Over 5 years AED 000	Total AED 000
LIABILITIES						
Due to banks	15,794,449	4,517,786	29,377	1,232	968,349	21,311,193
Customer deposits	206,164,277	50,987,553	7,577,139	983,947	-	265,712,916
Islamic customer deposits	48,999,971	11,621,325	191,528	2,561	-	60,815,385
Debt issued and other borrowed funds	2,518,916	1,561,555	20,453,714	9,602,840	5,651,823	39,788,848
Sukuk payable	1,836,250	-	-	3,690,399	-	5,526,649
Negative fair value of derivatives	109,682	584,006	744,987	405,156	408,664	2,252,495
Customer acceptances	6,111,947	-	-	-	-	6,111,947
Other liabilities	5,275,826	4,215,487	-	-	-	9,491,313
Total equity	-	-	-	-	59,361,537	59,361,537
TOTAL LIABILITIES AND EQUITY	286,811,318	73,487,712	28,996,745	14,686,135	66,390,373	470,372,283
OFF BALANCE SHEET						
Letters of Credit and Guarantees	28,318,262	18,912,823	9,106,155	1,882,347	2,071,407	60,290,994
31 December 2016						
ASSETS	248,862,253	55,441,704	38,136,481	27,947,153	77,616,421	448,004,012
LIABILITIES AND EQUITY	237,228,195	92,371,092	44,547,924	10,333,492	63,523,309	448,004,012
OFF BALANCE SHEET ITEMS	26,510,807	10,652,250	15,837,963	2,761,451	1,133,154	56,895,625

46 RISK MANAGEMENT (continued)

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES:

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2017 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Group expects that many customers will not request repayment on the earliest date, the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

As at 31 December 2017

	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	21,311,193	(21,367,995)	(15,821,993)	(4,544,512)	(30,332)	(1,989)	(969,169)
Customer deposits	265,712,916	(267,258,722)	(206,473,459)	(51,911,361)	(7,856,740)	(1,017,162)	-
Islamic customer deposits	60,815,385	(61,189,890)	(49,257,094)	(11,736,105)	(194,044)	(2,647)	-
Debt issued and other borrowed funds	39,788,848	(43,394,219)	(2,831,344)	(2,400,113)	(21,865,270)	(10,273,343)	(6,024,149)
Sukuk payable	5,526,649	(5,978,985)	(1,888,784)	(99,367)	(264,134)	(3,726,700)	-
	393,154,991	(399,189,811)	(276,272,674)	(70,691,458)	(30,210,520)	(15,021,841)	(6,993,318)
Letters of credit and guarantees	60,290,994	(60,290,994)	(28,318,262)	(18,912,823)	(9,106,155)	(1,882,347)	(2,071,407)
Irrevocable loan commitments	25,279,231	(25,279,231)	(13,075,208)	(5,392,458)	(6,811,565)	-	-

46 RISK MANAGEMENT (continued)

As at 31 December 2016

	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	18,902,477	(18,932,200)	(13,059,100)	(4,072,828)	(1,756,248)	(35,605)	(8,419)
Customer deposits	254,698,202	(256,875,525)	(192,083,963)	(56,110,345)	(8,341,767)	(146,100)	(193,350)
Islamic customer deposits	56,054,237	(56,925,609)	(18,750,506)	(19,528,935)	(18,646,168)	-	-
Debt issued and other borrowed funds	38,695,734	(41,721,313)	(2,493,314)	(7,185,086)	(16,144,522)	(6,592,846)	(9,305,545)
Sukuk payable	7,368,138	(8,025,388)	(1,879,567)	-	(1,950,281)	(4,195,540)	-
	375,718,788	(382,480,035)	(228,266,450)	(86,897,194)	(46,838,986)	(10,970,091)	(9,507,314)
Letters of credit and guarantees	56,895,625	(56,895,625)	(26,510,807)	(10,652,250)	(15,837,963)	(2,761,451)	(1,133,154)
Irrevocable loan commitments	29,099,863	(29,099,863)	(14,822,633)	(5,723,600)	(8,553,630)	-	-

46 RISK MANAGEMENT (continued)

Interest rate risk in the banking book

Interest Rate Risk in the Banking Book ('IRRBB') is defined as the exposure of the non-trading products of the Group to interest rates. Non-trading portfolios include all banking book positions that arise from the interest rate on the Group's consumer and commercial banking assets and liabilities, and financial investments designated as available for sale and held to maturity. IRRBB arises principally from mismatches between the future yields on assets and their funding costs, as a result of interest rate changes.

In order to manage this risk optimally, IRRBB in non-trading portfolios is transferred to Group Treasury under the supervision of the Group ALCO, through Funds Transfer Pricing (FTP) Systems. Group ALCO is required to regularly monitor all such interest rate risk positions to ensure they comply with interest rate risk limits.

For measuring overall interest sensitivity in the banking book, the Group conducts stress tests by simulating parallel shifts to the yield curve(s) ranging from 50 basis points to 200 basis points, and assessing the corresponding impact on its Net Interest Income.

	As at 31 December 2017		As at 31 December 2016	
	Amount	Variance	Amount	Variance
	AED 000	AED 000	AED 000	AED 000
Rates Up 200 bp	13,636,006	2,207,109	11,451,778	2,188,434
Base Case	11,428,897	-	9,263,344	-
Rates Down 200 bp	9,007,996	(2,420,901)	8,022,562	(1,240,782)

The interest rate sensitivities set out in the table above are based on a set scenario i.e. the projections above assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential effect on net interest income of some rates changing while others remain unchanged. The projections also make the assumption that all positions run to maturity. This effect does not incorporate actions that would be taken by Group Treasury or in the business units to mitigate the impact of this interest rate risk. In practice, Group Treasury seeks proactively to change the interest rate risk profile to minimize losses and optimize net revenues.

46 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis:

31 December 2017	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
ASSETS							
Cash and deposits with Central Bank	10,875,203	12,251,139	7,289,955	5,829,138	-	35,607,183	71,852,618
Due from banks	25,287,122	13,589,739	2,566,077	336,905	859,581	7,086,711	49,726,135
Trading securities	270,814	376,398	885,106	558,685	1,452,987	11,307	3,555,297
Investment securities	990,243	1,268,037	839,080	667,836	10,679,400	1,048,349	15,492,945
Loans and receivables	155,272,694	51,554,544	6,746,178	1,559,598	42,471,652	-	257,604,666
Islamic financing receivables	11,444,015	13,313,800	6,886,920	4,727,491	10,115,722	-	46,487,948
Investments in associates and joint ventures	-	-	-	-	-	1,624,330	1,624,330
Positive fair value of derivatives	-	-	-	-	-	2,851,520	2,851,520
Investment properties	-	-	-	-	-	537,680	537,680
Customer acceptances	-	-	-	-	-	6,111,947	6,111,947
Property and equipment	-	-	-	-	-	2,442,833	2,442,833
Goodwill and Intangibles	-	-	-	-	-	5,688,203	5,688,203
Other assets	-	-	-	-	-	6,396,161	6,396,161
TOTAL ASSETS	204,140,091	92,353,657	25,213,316	13,679,653	65,579,342	69,406,224	470,372,283

46 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis (continued):

31 December 2017	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
LIABILITIES AND EQUITY							
Due to banks	14,945,018	1,620,790	2,407,592	1,775,546	174,193	388,054	21,311,193
Customer deposits	86,297,682	24,072,671	17,928,010	33,059,543	8,561,086	95,793,924	265,712,916
Islamic customer deposits	22,297,392	9,110,710	5,480,762	6,140,563	194,089	17,591,869	60,815,385
Debt issued and other borrowed funds	5,158,969	15,727,480	-	87,215	18,815,184	-	39,788,848
Sukuk payable	-	1,836,250	-	-	3,690,399	-	5,526,649
Negative fair value of derivatives	-	-	-	-	-	2,252,495	2,252,495
Customer acceptances	-	-	-	-	-	6,111,947	6,111,947
Other liabilities	-	-	-	-	-	9,491,313	9,491,313
Total equity	-	-	-	-	-	59,361,537	59,361,537
TOTAL LIABILITIES AND EQUITY	128,699,061	52,367,901	25,816,364	41,062,867	31,434,951	190,991,139	470,372,283
ON BALANCE SHEET GAP	75,441,030	39,985,756	(603,048)	(27,383,214)	34,144,391	(121,584,915)	-
OFF BALANCE SHEET GAP	(1,458,026)	(51,802)	-	1,400,000	109,828	-	-
INTEREST RATE SENSITIVITY GAP – 2017	73,983,004	39,933,954	(603,048)	(25,983,214)	34,254,219	(121,584,915)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2017	73,983,004	113,916,958	113,313,910	87,330,696	121,584,915	-	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2016	82,386,138	92,229,776	85,828,181	49,439,891	109,954,185	-	-

46 RISK MANAGEMENT (continued)

Reputational Risk

Reputational risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. It also includes the threat to the brand value of a financial institution.

Reputational risk can arise as a consequence of failures with a strong negative perception of clients, shareholders, creditors or the public. The Group has controls to ensure a positive perception of the Group and that overall risk management ensures appropriate management of reputational risk.

Regulatory/Compliance Risk

Regulatory/Compliance risk is the risk of reputational and/or financial losses due to the failure to comply with applicable laws, regulations or sanctions.

The Group has an independent Compliance function, with the necessary mandate and authority to enforce and monitor compliance on a Group wide basis. This includes compliance with the applicable laws and regulations across the various jurisdictions where the Group operates as well as those of the USD / EU clearing centres.

Compliance policies covering key areas such as Sanctions, Anti Money Laundering (AML), Counter Terrorist Financing (CTF), Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) are applicable Group wide and are supplemented where necessary to address any unique local requirements. These policies are supported by automated screening and monitoring systems and associated investigation teams to help comply with the Sanctions, AML, CTF, FATCA and CRS requirements. Independent Compliance Monitoring is undertaken to provide assurance over the effectiveness of controls. Mandatory Compliance Training is provided to all relevant staff both at onboarding and periodically thereafter to help ensure that key requirements are complied with.

Internal Audit's role in overall risk management

Internal Audit's reporting lines are independent of management and it reports directly to the Board Audit Committee. It is responsible for providing an independent review of the control environment across the group including all aspects of risk management. The primary objective of Internal Audit is to provide reliable, valued and timely assurance to the Board and Executive Management over the effectiveness of controls to mitigate current and emerging high risks thereby enhancing the control culture within the Group. The Board Audit Committee reviews and approves Internal Audit's plans and resources, and evaluates the effectiveness of Internal Audit. An assessment by external advisers is also carried out periodically.

Risk management framework and processes at Group entities

In establishing risk management policies & processes at the Group entities level, due consideration is given to the entities' specific regulatory environment.

47 LEGAL PROCEEDINGS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has proper controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Group is expected to arise from legal claims as at 31 December 2017.

48 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 65.3 million (2016: AED 55.2 million).