

Abu Dhabi Commercial Bank PJSC

Consolidated financial statements

For the year ended December 31, 2017

The audited financial statements are subject to approval by the Central Bank of U.A.E. and adoption by Shareholders at the Annual General Meeting

Consolidated financial statements are also available at:
www.adcb.com



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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Abu Dhabi Commercial Bank PJSC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Abu Dhabi Commercial Bank PJSC, Abu Dhabi (the "Bank") 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 changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
Impairment of loans and advances to customers	
<p>The assessment of the Bank's determination of impairment allowances for loans and advances to customer requires management to make significant judgements over both timing of recognition and quantum of such impairment. The audit was focused on this matter due to the materiality of the balances (representing 62% of total assets) and the subjective nature of the calculations.</p> <p>In wholesale loans and advances, the material portion of impairment is individually calculated. There is a risk that management does not capture all information necessary and available to determine the best estimate of future cash flows and incurred loss at the reporting date. This is specifically relevant as a result of the limited amount of data available over future cash flows and the high volatility of underlying collateral values. There is also the risk that management does not identify impairment triggers in a timely manner for performing loans and may allow bias to influence the impairment allowance.</p> <p>For retail and performing wholesale loans and advances, the material portion of impairment is calculated on a modelled basis for portfolios. The inputs to these models are subject to management judgements and model overlays are required when management believes the parameters and calculations are not sufficient to cover specific risks. These overlays require significant judgement. We also identified a significant risk over the impairment allowance resulting from external factors, mainly the macro-economic and credit situation in the country. In light of the economic background, there is a risk that the impairment models fail to reflect the current economic conditions when determining the portfolio provisions.</p>	<p>Our audit procedures included the assessment of controls over the monitoring of loans for the purposes of estimating incurred credit losses, and evaluating the methodologies, inputs and assumptions used by the Bank in calculating collectively assessed impairments and assessing the adequacy of impairment allowances for individually assessed loans.</p> <p>We tested the design and operating effectiveness of relevant controls to determine which loans are impaired and allowances against those assets. These included testing:</p> <ul style="list-style-type: none"> ▪ System-based and manual controls over the timely recognition of impaired loans; ▪ Controls over the approval, accuracy and completeness of the impairment calculation models; and ▪ Governance controls, including reviewing key meetings that form part of the approval process for loan impairment allowances. <p>We tested a sample of loans to assess whether impairment events had been identified in a timely manner.</p> <p>In addition, we also focused on individually significant exposures. We tested the assumptions underlying the impairment identification and quantification, valuation of underlying collateral and estimates of recovery on default.</p> <p>We paid particular attention to collective impairment methodology, where we reviewed the model to ensure that it meets the requirements of relevant accounting standards, tested inputs and re-performed the calculations. We also assessed the adequacy and movements of management overlays.</p>

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
Valuation of investment securities and derivatives	
<p>The valuation of the Bank's financial instruments measured at fair value was a key area of audit focus due to their significance (20% of total assets). In addition, the valuation of certain instruments like derivatives remains a complex area, in particular when the fair value is established using a valuation technique due to the instrument's complexity or due to the lack of availability of market-based data. Those valuations involve significant judgements over the selection of an appropriate valuation methodology and inputs used in the models. Our audit focused on testing the valuation methodology of derivative financial instruments.</p>	<p>Our audit procedures included testing the design and operating effectiveness of relevant controls in the Bank's financial instruments valuation process.</p> <p>We also involved our valuation specialists to assess the valuation of derivatives and to review the accounting for qualifying hedging relationships including hedge designation and effectiveness assessment. For model-based valuations, we have compared observable inputs against independent sources and externally available market data to evaluate compliance with IFRS 13.</p> <p>We have also assessed the adequacy of the Bank's disclosures including the accuracy of the categorisation into the fair value measurement hierarchy and adequacy of the disclosure of the valuation techniques, significant unobservable inputs, changes in estimate occurring during the period and the sensitivity to key assumptions.</p>

Key audit matter	How the matter was addressed in our audit
IT systems and controls over financial reporting	
<p>We identified IT systems and controls over financial reporting as an area of focus because the Bank's financial accounting and reporting systems are vitally dependent on complex technology due to the extensive volume and variety of transactions which are processed daily and there is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. Moreover, the Bank completed the migration of its core banking systems and consolidated multiple systems into a single core banking platform during the reporting period. A particular area of focus related to logical access management and segregation of duties. The underlying principles are important because they ensure that changes to applications and data are appropriate, authorised and monitored. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.</p>	<p>Our audit approach relies on automated controls and therefore procedures were designed to test access and control over IT systems. Given the IT technical characteristics of this part of the audit, we involved our IT audit specialists. Our audit procedures included:</p> <ul style="list-style-type: none"> ▪ Update the IT understanding on applications relevant to financial reporting including Swift/FTS messaging and the infrastructure supporting these applications; ▪ Test of IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data center and network operations; ▪ Examine computer generated information used in financial reports from relevant applications; ▪ Assess relevant controls over data migration in relation to the upgrade of the core banking system during the reporting period; ▪ Assess the reliability and continuity of the information system environment; ▪ Perform testing on the key automated controls on significant IT systems relevant to business processes; and ▪ Perform journal entry testing as stipulated by the International Standard on Auditing. <p>The combination of the test of controls and substantive tests performed, provided us sufficient evidence to enable us to rely on the continued operations of the IT systems for the purpose of our audit.</p>

INDEPENDENT AUDITOR'S REPORT (continued)

Other information

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Bank but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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

When we read the annual report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and Board Audit & Compliance Committee are responsible for overseeing the Bank's financial reporting process.

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 Bank'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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities of the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

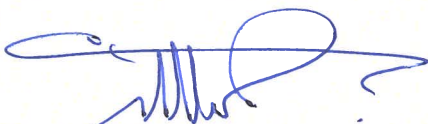
Report on other legal and regulatory requirements

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the consolidated financial statements of the Bank have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Bank has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Bank's books of account;
- note 41 to the consolidated financial statements of the Bank discloses purchased or investment in shares during the financial year ended 31 December 2017;
- note 37 to the consolidated financial statements of the Bank discloses material related party transactions, the terms under which these were conducted and principles of managing conflict of interests;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2017; and
- note 53 to the consolidated financial statements of the Bank discloses social contributions made during the financial year ended 31 December 2017.

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

Deloitte & Touche (M.E.)




Signed by:
Mohammad Khamees Al Tah
Registration No. 717
28 January 2018
Abu Dhabi
United Arab Emirates

Abu Dhabi Commercial Bank PJSC**Consolidated statement of financial position**

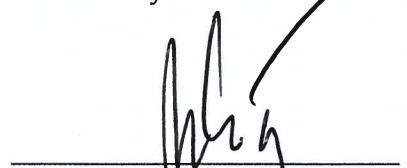
As at December 31, 2017

	Notes	2017 AED'000	2016 AED'000	2017 USD'000
Assets				
Cash and balances with central banks	5	19,997,123	19,261,902	5,444,357
Deposits and balances due from banks, net	6	11,451,956	24,663,615	3,117,875
Reverse-repo placements	7	98,578	1,524,806	26,839
Trading securities	8	485,301	418,758	132,127
Derivative financial instruments	9	3,820,364	3,971,789	1,040,121
Investment securities	10	49,191,657	33,059,466	13,392,773
Loans and advances to customers, net	11	163,282,230	158,457,695	44,454,732
Investment in associate	12	205,372	204,977	55,914
Investment properties	13	634,780	659,776	172,823
Other assets	14	14,857,038	15,120,988	4,044,933
Property and equipment, net	15	960,096	926,685	261,393
Intangible assets	16	18,800	18,800	5,118
Total assets		265,003,295	258,289,257	72,149,005
Liabilities				
Due to banks	17	5,177,129	3,842,714	1,409,510
Derivative financial instruments	9	4,234,481	4,792,529	1,152,867
Deposits from customers	18	163,078,386	155,442,207	44,399,234
Euro commercial paper	19	2,909,845	8,728,533	792,226
Borrowings	20	40,555,195	38,015,030	11,041,436
Other liabilities	21	16,603,319	17,117,359	4,520,370
Total liabilities		232,558,355	227,938,372	63,315,643
Equity				
Share capital	22	5,198,231	5,198,231	1,415,255
Share premium		2,419,999	2,419,999	658,862
Other reserves	23	7,484,927	7,437,283	2,037,823
Retained earnings		13,341,783	11,295,372	3,632,394
Capital notes	26	4,000,000	4,000,000	1,089,028
Total equity		32,444,940	30,350,885	8,833,362
Total liabilities and equity		265,003,295	258,289,257	72,149,005


These consolidated financial statements were approved by the Board of Directors and authorised for issue on January 28, 2018 and signed on its behalf by:



Eissa Al Suwaidi
Chairman



Ala'a Eraiqat
Group Chief Executive Officer



Deepak Khullar
Group Chief Financial Officer

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

Consolidated income statement

For the year ended December 31, 2017

	Notes	2017 AED'000	2016 AED'000	2017 USD'000
Interest income	27	8,772,562	7,907,603	2,388,392
Interest expense	28	(3,031,135)	(2,411,589)	(825,248)
Net interest income		5,741,427	5,496,014	1,563,144
Income from Islamic financing	24	1,081,671	843,678	294,493
Islamic profit distribution	24	(122,040)	(138,519)	(33,226)
Net income from Islamic financing		959,631	705,159	261,267
Total net interest and Islamic financing income		6,701,058	6,201,173	1,824,411
Net fees and commission income	29	1,507,042	1,472,303	410,303
Net trading income	30	353,977	521,853	96,373
Net (losses)/gains from investment properties	13	(34,173)	15,582	(9,304)
Other operating income	31	367,420	284,536	100,032
Operating income		8,895,324	8,495,447	2,421,815
Operating expenses	32	(2,947,581)	(2,795,862)	(802,499)
Operating profit before impairment allowances		5,947,743	5,699,585	1,619,316
Impairment allowances	33	(1,673,620)	(1,520,518)	(455,655)
Share in profit of associate	12	9,845	7,821	2,680
Profit before taxation		4,283,968	4,186,888	1,166,341
Overseas income tax expense		(6,360)	(29,820)	(1,732)
Net profit for the year		4,277,608	4,157,068	1,164,609
Attributed to:				
Equity holders of the Bank		4,277,608	4,148,651	1,164,609
Non-controlling interests		-	8,417	-
Net profit for the year		4,277,608	4,157,068	1,164,609
Basic earnings per share (AED/USD)	34	0.80	0.77	0.22
Diluted earnings per share (AED/USD)	34	0.79	0.77	0.22

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

Consolidated statement of comprehensive income

For the year ended December 31, 2017

	2017 AED'000	2016 AED'000	2017 USD'000
Net profit for the year	4,277,608	4,157,068	1,164,609
Items that may be re-classified subsequently to the consolidated income statement			
Exchange difference arising on translation of foreign operations (Note 23)	13,546	(5,481)	3,688
Net movement in cash flow hedge reserve (Note 23)	(46,877)	(146,550)	(12,763)
Net movement in fair value of available-for-sale investments (Note 23)	45,830	114,197	12,477
	12,499	(37,834)	3,402
Items that may not be re-classified subsequently to the consolidated income statement			
Actuarial gains on defined benefit obligation (Note 21)	2,022	1,573	551
Total comprehensive income for the year	4,292,129	4,120,807	1,168,562
Attributed to:			
Equity holders of the Bank	4,292,129	4,112,390	1,168,562
Non-controlling interests	-	8,417	-
Total comprehensive income for the year	4,292,129	4,120,807	1,168,562

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

Abu Dhabi Commercial Bank PJSC

Consolidated statement of changes in equity

For the year ended December 31, 2017

	Share capital AED'000	Share premium AED'000	Other reserves AED'000	Retained earnings AED'000	Capital notes AED'000	Equity attributable to equity holders of the Bank AED'000	Non- controlling interests AED'000	Total equity AED'000
As at January 1, 2017	5,198,231	2,419,999	7,437,283	11,295,372	4,000,000	30,350,885	-	30,350,885
Net profit for the year	-	-	-	4,277,608	-	4,277,608	-	4,277,608
Other comprehensive income for the year	-	-	12,499	2,022	-	14,521	-	14,521
Other movements (Note 23)	-	-	35,145	1,939	-	37,084	-	37,084
Dividends paid to equity holders of the Bank	-	-	-	(2,079,292)	-	(2,079,292)	-	(2,079,292)
Capital notes coupon paid (Note 34)	-	-	-	(155,866)	-	(155,866)	-	(155,866)
As at December 31, 2017	5,198,231	2,419,999	7,484,927	13,341,783	4,000,000	32,444,940	-	32,444,940
As at January 1, 2016	5,595,597	3,848,286	5,656,564	9,627,315	4,000,000	28,727,762	5,041	28,732,803
Net profit for the year	-	-	-	4,148,651	-	4,148,651	8,417	4,157,068
Other comprehensive (loss)/income for the year	-	-	(37,834)	1,573	-	(36,261)	-	(36,261)
Other movements (Note 23)	-	-	(7,100)	(4,950)	-	(12,050)	-	(12,050)
Dividends paid to equity holders of the Bank	-	-	-	(2,339,204)	-	(2,339,204)	-	(2,339,204)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(13,458)	(13,458)
Capital notes coupon paid (Note 34)	-	-	-	(138,013)	-	(138,013)	-	(138,013)
Cancellation of treasury shares (Note 23)	(397,366)	(1,428,287)	1,825,653	-	-	-	-	-
As at December 31, 2016	5,198,231	2,419,999	7,437,283	11,295,372	4,000,000	30,350,885	-	30,350,885

For the year ended December 31, 2017, the Board of Directors has proposed to pay a cash dividend representing 42% of the paid up capital (Note 22).

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

Consolidated statement of cash flows

For the year ended December 31, 2017

	2017 AED'000	2016 AED'000	2017 USD'000
OPERATING ACTIVITIES			
Profit before taxation	4,283,968	4,186,888	1,166,341
Adjustments for:			
Depreciation on property and equipment, net (Note 15)	165,114	144,813	44,953
Gain on sale of property and equipment, net	(73,844)	-	(20,105)
Net losses/(gains) from investment properties (Note 13)	34,173	(15,582)	9,304
Impairment allowance on loans and advances, net (Note 43.6)	1,929,269	1,689,913	525,257
Share in profit of associate (Note 12)	(9,845)	(7,821)	(2,680)
Discount unwind (Note 43.6)	(51,515)	(64,359)	(14,025)
Net gains from disposal of available-for-sale investments (Note 31)	(46,715)	(53,090)	(12,718)
Recoveries on available-for-sale investments and other impairment allowances (Note 33)	3,257	(31,798)	887
Interest income on available-for-sale investments	(1,208,585)	(629,703)	(329,046)
Dividend income on available-for-sale investments (Note 31)	(1,850)	(5,929)	(504)
Interest expense on borrowings and euro commercial paper	1,006,264	732,589	273,962
Net losses/(gains) from trading securities (Note 30)	7,785	(5,514)	2,120
Ineffective portion of hedges – (gains)/losses (Note 9)	(20,720)	3,278	(5,641)
Employees' incentive plan expense (Note 25)	37,084	34,304	10,096
Cash flow from operating activities before changes in operating assets and liabilities	6,053,840	5,977,989	1,648,201
Increase in balances with central banks	(128,555)	(775,245)	(35,000)
(Increase)/decrease in due from banks, net	(3,200,020)	5,149,073	(871,228)
Decrease in reverse-repo placements	-	2,032,852	-
Net movement in derivative financial instruments	(166,985)	(49,024)	(45,463)
Net purchase of trading securities	(74,328)	(350,983)	(20,236)
Increase in loans and advances to customers, net	(6,685,248)	(13,902,534)	(1,820,106)
Increase in other assets	(176,596)	(432,651)	(48,079)
(Decrease)/increase in due to banks	(297,792)	1,056,196	(81,076)
Increase in deposits from customers	7,635,514	11,917,003	2,078,822
Increase in other liabilities	202,487	594,541	55,128
Net cash from operations	3,162,317	11,217,217	860,963
Overseas tax paid, net	(7,044)	(15,724)	(1,918)
Net cash from operating activities	3,155,273	11,201,493	859,045
INVESTING ACTIVITIES			
Recoveries on available-for-sale investments (Note 33)	-	19,209	-
Proceeds from redemption/disposal of available-for-sale investments	10,406,784	9,240,329	2,833,320
Net purchase of available-for-sale investments	(26,267,582)	(21,551,793)	(7,151,533)
Interest received on available-for-sale investments	1,338,123	828,715	364,313
Dividends received on available-for-sale investments (Note 31)	1,850	5,929	504
Dividends received from associate	9,450	-	2,573
Net (additions to)/proceeds from disposal of investment properties (Note 13)	(1,000)	3,453	(272)
Net proceeds from disposal of property and equipment	74,040	-	20,158
Net purchase of property and equipment	(198,721)	(236,353)	(54,103)
Net cash used in investing activities	(14,637,056)	(11,690,511)	(3,985,040)
FINANCING ACTIVITIES			
Net (decrease)/increase in euro commercial paper	(5,883,329)	2,931,445	(1,601,778)
Net proceeds from borrowings	19,789,726	21,840,794	5,387,892
Repayment of borrowings	(18,284,459)	(17,295,347)	(4,978,072)
Interest/swap costs paid on borrowings and euro commercial paper	(744,568)	(573,295)	(202,714)
Dividends paid to equity holders of the Bank	(2,079,292)	(2,339,204)	(566,102)
Dividends paid to non-controlling interests	-	(13,458)	-
Purchase of employees' incentive plan shares (Note 23)	-	(46,354)	-
Capital notes coupon paid (Note 34)	(155,866)	(138,013)	(42,436)
Net cash (used in)/from financing activities	(7,357,788)	4,366,568	(2,003,210)
Net (decrease)/increase in cash and cash equivalents	(18,839,571)	3,877,550	(5,129,205)
Cash and cash equivalents at the beginning of the year	34,651,119	30,773,569	9,434,010
Cash and cash equivalents at the end of the year (Note 36)	15,811,548	34,651,119	4,304,805

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

1. Activities and areas of operations

Abu Dhabi Commercial Bank PJSC (“ADCB” or the “Bank”) is a public joint stock company with limited liability incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE). ADCB is principally engaged in the business of retail, commercial and Islamic banking and provision of other financial services through its network of forty seven branches and three pay offices in the UAE, two branches in India, one offshore branch in Jersey, its subsidiaries and two representative offices located in London and Singapore.

The registered head office of ADCB is at Abu Dhabi Commercial Bank Head Office Building, Sheikh Zayed Bin Sultan Street, Plot C- 33, Sector E-11, P. O. Box 939, Abu Dhabi, UAE.

The Bank has amended its Articles of Association to ensure its compliance with the provisions of the UAE Federal Law No. 2 of 2015, which came into effect on July 1, 2015.

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

In the current year, the Group has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after January 1, 2017. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group’s future transactions or arrangements.

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

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after January 1, 2017.

Standards and Interpretations in issue but not yet effective

The Group has not early adopted any new and revised IFRSs that have been issued but are not yet effective.

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9.	January 1, 2018
IFRS 7 Financial Instruments: Disclosures requiring additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	January 1, 2018

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)
Standards and Interpretations in issue but not yet effective (continued)

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
<p>IFRS 15 Revenue from Contracts with Customers - In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.</p> <p>The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:</p> <p>Step 1: Identify the contract(s) with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.</p> <p>Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.</p>	January 1, 2018
<p>IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014) issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.</p> <p>A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:</p> <p>Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.</p>	January 1, 2018
<p>Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.</p>	
<p>Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.</p>	
<p>Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.</p>	

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)**Standards and Interpretations in issue but not yet effective (continued)**

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
IFRS 17 Insurance Contracts requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.	January 1, 2021
Annual Improvements to IFRSs 2014 – 2016 Cycle amending IFRS 1 and IAS 28.	January 1, 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration - the interpretation addresses foreign currency transactions or parts of transactions where: <ul style="list-style-type: none"> - there is consideration that is denominated or priced in a foreign currency; - the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and - the prepayment asset or deferred income liability is non-monetary. 	January 1, 2018
Amendments to IFRS 2 Share-based Payment regarding classification and measurement of share based payment transactions.	January 1, 2018
Amendments to IFRS 4 Insurance Contracts relating to different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	January 1, 2018
Amendments to IAS 40 Investment Property stating that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	January 1, 2018
Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 1, 2018
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	January 1, 2019

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)**Standards and Interpretations in issue but not yet effective (continued)**

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
<p>IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> - Whether tax treatments should be considered collectively; - Assumptions for taxation authorities' examinations; - The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and - The effect of changes in facts and circumstances. 	January 1, 2019
<p>Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.</p>	January 1, 2019
<p>Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.</p>	January 1, 2019
<p>Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.</p>	<p>Effective date deferred indefinitely. Adoption is still permitted.</p>

Management anticipates that these IFRSs and amendments will be adopted in the Group's consolidated financial statements in the initial period when they become mandatorily effective. Among the new standards, only the application of IFRS 9 will have a major impact on the Group's consolidated financial statements.

IFRS 9 Financial instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition and in November 2013 to include the new requirements for general hedge accounting. Final version of IFRS 9 was issued in July 2014 mainly to include:

- a) Impairment requirements for financial assets; and
- b) Limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

IFRS 9 Financial Instruments is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)**Standards and Interpretations in issue but not yet effective (continued)****IFRS 9 Financial instruments (continued)**

In October 2017, the IASB issued prepayment features with negative compensation (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Group has decided not to early adopt the aforementioned amendments.

Key requirements of IFRS 9

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at 'fair value through profit or loss' (FVTPL), IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk or that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

In accordance with the transition requirements for hedge accounting under IFRS 9, the Group has made an accounting policy choice to continue to apply the hedge accounting requirements in IAS 39.

Based on an analysis of the Group's financial assets and financial liabilities as at October 31, 2017 and the facts and circumstances that exist at that date, we assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)**Standards and Interpretations in issue but not yet effective (continued)****IFRS 9 Financial instruments (continued)****Classification and measurement**

1. Loans and advances to customers, deposits and balance due from banks, balances with central banks and reverse repo placements as disclosed in Note 11, Note 6, Note 5 and Note 7 respectively are carried at amortised cost; these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9.
2. Government securities and bonds forming part of the available for sale instruments as disclosed in Note 10 are mainly held within a business model whose objective is to collect the contractual cash flows and generate cash flows by selling the bonds for managing liquidity. The bonds contractual terms give rise to cash flows on the specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses will continue to be subsequently reclassified to profit or loss when these assets are derecognised or reclassified.
3. Listed and unlisted shares and mutual funds classified as available for sale investments in Note 10 are irrevocably designated to be measured at FVTOCI under IFRS 9. However, the fair value gains or losses accumulated will no longer be subsequently reclassified to profit or loss which is different from the current treatment. This will affect the amounts recognised in the Group's consolidated income statement but will not affect the total comprehensive income.
4. All other financial assets will be measured at FVTPL, whereas liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.
5. Embedded derivatives in a financial asset host contract are no longer required to be separated under IFRS 9. Instead, the hybrid financial asset as a whole will be assessed for classification.

Impairment – Financial assets, loan commitments and financial guarantee contracts

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

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments, i.e. debt investment securities and loans and advances to customers;
- Lease receivables; and
- Loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires entities to determine whether the credit risk on a financial instrument has increased significantly since initial recognition. With the exception of purchased or originally credit impaired financial assets, ECLs are required to be measured at an amount equal to 12-month ECL (referred to as Stage 1). Full lifetime ECL is recognised if there is a significant increase in credit risk or if an exposure is credit impaired (referred to as Stage 2 and Stage 3, respectively). Interest revenues for financial assets under Stage 3 are calculated on the net carrying amount.

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)**Standards and Interpretations in issue but not yet effective (continued)****IFRS 9 Financial instruments (continued)**

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within 12 months after the reporting date.

The Group will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases for which the amount recognised will be 12-month ECLs:

- Debt investment securities that are determined to have low credit risk at the reporting date. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the definition of 'investment-grade'; and
- Other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are the term structures of the following variables:

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

These parameters will be derived from internally developed statistical models and other historical data; they will be adjusted to reflect forward-looking information as described below. The Group will leverage the existing parameters of the regulatory framework and risk management practice.

PD estimates are estimates at a certain date which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate or sovereign counterparties.

If a counterparty or exposure migrates between ratings' classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities or exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group will estimate LGD parameters based on the history of recovery rates or claims against defaulted counterparties. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan to value (LTV) ratios are a key parameter in determining LGD. LGD estimates will be calibrated for different economic scenarios and, for real-estate lending, to reflect possible changes in property prices. They will be calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure at a future default date. The Group will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation and payment of principal and interest. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on credit conversion factors.

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)**Standards and Interpretations in issue but not yet effective (continued)****IFRS 9 Financial instruments (continued)**

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk.

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

- Instrument type;
- Credit risk grading;
- Collateral type;
- LTV ratio for retail mortgages;
- Date of initial recognition;
- Industry; and
- Geographic location of the borrower.

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

Impact assessment

The most significant impact on the Group's consolidated financial statements on implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The transitional impact of IFRS 9 will be recognised in the opening equity as at January 1, 2018. The Management has estimated the impact of IFRS 9, based on the portfolio as at October 31, 2017, which is likely to be a reduction of 40bps to 59bps in Common equity tier 1 (CET1) capital and Capital adequacy ratio (CAR).

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on January 1, 2018 may change because:

- The Group has conducted parallel runs in the second half of 2017, the new systems and associated controls have not been operational for a more extended period;
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first consolidated financial statements that include the date of initial application;
- ECL calculations and models are being refined and finalised; and
- The Group is finalising the testing and assessment of controls over its new IT systems and changes to its governance framework.

3. Summary of significant accounting policies

3.1 Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

IFRSs comprise accounting standards issued by the IASB as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

As required by the Securities and Commodities Authority of the UAE ("SCA") Notification No. 2624/2008 dated October 12, 2008, the Group's exposure in cash and balances with central banks, deposits and balances due from banks, trading and investment securities outside the UAE have been presented under the respective notes.

Certain disclosure notes have been rearranged from the Group's prior year consolidated financial statements to conform to the current year's presentation.

3.2 Measurement

The consolidated financial statements have been prepared under the historical cost convention except as modified by the revaluation of financial assets and liabilities at fair value through profit and loss, available-for-sale financial assets and investment properties.

3.3 Functional and presentation currency

The consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Group's functional and presentation currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

The United States Dollar (USD) amounts in the primary financial statements are presented for the convenience of the reader only by converting the AED balances at the pegged exchange rate of 1 USD = 3.673 AED.

3.4 Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 4.

3. Summary of significant accounting policies (continued)**3.5 Basis of consolidation**

The consolidated financial statements incorporate the financial statements of Abu Dhabi Commercial Bank PJSC and its subsidiaries (collectively referred to as the “Group”).

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When a company has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time the decision needs to be made, including voting patterns at previous shareholders' meetings.

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

Profit or loss and each component of other comprehensive income are attributed to owners of the Bank and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and non-controlling interests even if this results in non-controlling interests having a deficit balance.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to align their accounting policies with the Bank's accounting policies.

All intragroup balances and income, expenses and cash flows resulting from intragroup transactions are eliminated in full on consolidation.

Changes in the Bank's ownership interests in existing subsidiaries

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Bank's interests is adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the shareholders of the Bank.

3. Summary of significant accounting policies (continued)**3.5 Basis of consolidation (continued)****Changes in the Bank's ownership interests in existing subsidiaries (continued)**

When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to income statement or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

Special Purpose Entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank, the Bank has power over the SPE, is exposed to or has rights to variable returns from its involvement with the SPE and its ability to use its power over the SPE at inception and subsequently to affect the amount of its return, the Bank concludes that it controls the SPE.

The assessment of whether the Bank has control over a SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Bank and the SPE except whenever there is a change in the substance of the relationship between the Bank and a SPE.

Funds under Management

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity, as referred to above. Information about the Funds managed by the Bank is set out in Note 50.

Investment in associate

Associates are those entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investment in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of investment in associate, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3. Summary of significant accounting policies (continued)**3.5 Basis of consolidation (continued)****Investment in associate (continued)**

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 – Impairment of Assets as a single asset by comparing the recoverable amount (higher of value in use and fair value less cost of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of the impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of equity method of accounting from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at the date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date equity method was discontinued and the fair value of the retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation of that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

Joint operation – when the Group has rights to the assets and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture – when the Group has rights only to the net assets of the arrangements, it accounts for its interest using the equity method, as for associates.

3.6 Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Group are presented in AED, which is the Group's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the statement of financial position date. Any resulting exchange differences are included in the consolidated income statement. Non-monetary assets and liabilities are translated at historical exchange rates or year-end exchange rates if held at fair value, as appropriate. The resulting foreign exchange gains or losses are recognised in either consolidated income statement or consolidated other comprehensive income statement depending upon the nature of the asset or liability.

3. Summary of significant accounting policies (continued)**3.6 Foreign currencies (continued)**

In the consolidated financial statements, the results and financial positions of branches and subsidiaries whose functional currency is not AED, are translated into the Group's presentation currency as follows:

- (a) assets and liabilities at the rate of exchange prevailing at the statement of financial position date;
- (b) income and expenses at the average rates of exchange for the reporting period; and
- (c) all resulting exchange differences arising from the retranslation of opening assets and liabilities and arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end are recognised in other comprehensive income and accumulated in equity under 'foreign currency translation reserve' (Note 23).

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on a proportionate basis, except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, where the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement.

3.7 Financial instruments**Initial recognition**

All financial assets and liabilities are initially recognised on the date at which the Group becomes a party to the contractual provision of the instrument except for "regular way" purchases and sales of financial assets which are recognised on settlement date basis (other than derivative contracts). Settlement date is the date that the Group physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Group has committed to purchase at the consolidated statement of financial position date is recognised in the consolidated income statement for assets classified as held for trading, in other comprehensive income for assets classified as available-for-sale and no adjustments are recognised for assets carried at cost or amortised cost.

Financial assets are classified into the following categories: financial assets at 'fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'. The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired or incurred and their characteristics.

All financial instruments are measured initially at their fair value, plus transaction costs directly attributable to the acquisition, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction costs are recognised immediately in profit or loss.

Financial assets and liabilities classified as fair value through profit or loss (FVTPL)

Financial assets and liabilities are classified as at FVTPL when either held for trading or when designated as at FVTPL.

A financial asset or liability is classified as held for trading if:

- it has been acquired or purchased principally for the purpose of selling or purchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. Summary of significant accounting policies (continued)**3.7 Financial instruments (continued)****Financial assets and liabilities classified as fair value through profit or loss (FVTPL) (continued)**

A financial asset or liability other than held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise for measuring assets or liabilities on a different basis; or
- it forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives and IAS 39 - Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets and liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in consolidated income statement.

Held-to-maturity

Investments which have fixed or determinable payments with fixed maturities which the Group has the positive intention and ability to hold to maturity are classified as held to maturity investments.

Held-to-maturity investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses, with revenue recognised on an effective yield basis.

Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method.

If there is objective evidence that an impairment on held to maturity investments carried at amortised cost has been incurred, the amount of impairment loss recognised in the consolidated income statement is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the investments' original effective interest rate.

Investments classified as held-to-maturity and not close to their maturity, cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

Available-for-sale

Investments not classified as either "fair value through profit or loss" or "held-to-maturity" are classified as "available-for-sale". Available-for-sale assets are intended to be held for an indefinite period of time and may be sold in response to liquidity requirements or changes in interest rates, commodity prices or equity prices.

Available-for-sale investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at fair value. The fair values of quoted financial assets in active markets are based on current prices. If the market for a financial asset is not active, and for unquoted securities, the Group establishes fair value by using valuation techniques (e.g. recent arm's length transactions, discounted cash flow analysis and other valuation techniques). Only in very rare cases where fair value cannot be measured reliably, investments are carried at cost and tested for impairment, if any.

3. Summary of significant accounting policies (continued)**3.7 Financial instruments (continued)****Available-for-sale (continued)**

Gains and losses arising from changes in fair value are recognised in the other comprehensive income statement and recorded in cumulative changes in fair value with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is included in the consolidated income statement for the year.

If an available-for-sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

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:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the consolidated 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. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity. 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 consolidated income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value.
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income, accumulating in equity. A subsequent decline in the fair value of the instrument is recognised in the consolidated income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security. Impairment losses recognised on the equity security are not reversed through the consolidated income statement.

Loans and receivables

Loans and receivables include non-derivative financial assets originated or acquired by the Group with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investments will be recovered other than because of credit deterioration. The Group's loans and receivables include deposits and balances due from banks and loans and advances, net. Placements with banks represent time bound term deposits.

After initial measurement at fair value plus any directly attributable transaction costs, deposits and balances due from banks and loans and advances, net are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognised in the consolidated income statement.

Loan impairment

Refer to credit risk management section – Note 43.6.

3. Summary of significant accounting policies (continued)**3.7 Financial instruments (continued)****Financial liabilities and equity**

Debt and equity instruments are classified as either financial liability or equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and equity instrument.

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

A financial instrument is classified as equity if, and only if, both conditions (a) and (b) below are met.

(a) The instrument includes no contractual obligation:

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group.

(b) If the instrument will or may be settled in the Group's own equity instruments, it is:

- a non-derivative that includes no contractual obligation for the Group to deliver a variable number of its own equity instruments; or
- a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Debt issued and other borrowed funds

Financial instruments issued by the Group are classified as liabilities, 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. These are recognised initially at fair value, net of transaction costs.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component.

Mandatory convertible securities

The components of mandatory convertible securities issued by the Group are classified separately as equity and financial liability in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible securities as a whole. This is recognised and included as a separate component in the consolidated statement of changes in equity and is not subsequently re-measured.

3. Summary of significant accounting policies (continued)**3.7 Financial instruments (continued)****Other financial liabilities**

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Reclassification of financial assets

Reclassifications are recorded at fair value at the date of reclassification, which is recognised as the new amortised cost.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the consolidated income statement.

The Group may in rare circumstances reclassify a non-derivative trading asset out of the held for trading category into the loans and receivables category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

Reclassification is at the election of management and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

Derecognition of financial assets and financial liabilities**Financial assets**

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

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

When the Group has neither transferred its rights to receive cash flows from an asset nor has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. Summary of significant accounting policies (continued)**3.7 Financial instruments (continued)****Derecognition of financial assets and financial liabilities (continued)****Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or extinguishment is treated as a derecognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognised in the consolidated income statement.

Offsetting

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

The Group is party to a number of arrangements, including master netting agreements that give it the right to offset financial assets and financial liabilities but, where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented on a gross basis.

3.8 Sale and repurchase agreements

Securities sold subject to a commitment to repurchase them at a predetermined price at a specified future date (repos) are continued to be recognised in the consolidated statement of financial position and a liability is recorded in respect of the consideration received under borrowings. The difference between sale and repurchase price is treated as interest expense using the effective interest rate yield method over the life of the agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position. Amounts placed under these agreements are included in Reverse-repo placements. The difference between purchase and resale price is treated as interest income using the effective yield method over the life of the agreement.

3.9 Securities borrowing and lending

Securities borrowing and lending transactions are usually secured by cash or securities advanced by the borrower. Borrowed securities are not recognised in the statement of financial position nor are lent securities derecognised. Cash collateral received or given is treated as a financial asset or liability. However, where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the stock lending counterparty is recorded. The securities borrowing and lending activity arrangements are generally entered into through repos and reverse repos.

3.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with central banks, deposits and balances due from banks, due to banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3. Summary of significant accounting policies (continued)**3.11 Amortised cost measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

3.12 Fair value measurement

The Group measures its financial assets and liabilities at market price that it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence in the most advantageous market for the assets or liabilities. The Group considers principal market as the market with the greatest volume and level of activity for financial assets and liabilities.

The Group measures its non-financial assets at a price that take into account a market participant's ability to generate economic benefits by using the assets for their highest and best use.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair value of a liability reflects its non-performance risk.

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

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

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

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

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

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

3. Summary of significant accounting policies (continued)**3.13 Derivatives**

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index.

Derivative financial instruments are initially measured at fair value at trade date, and are subsequently re-measured at fair value at the end of each reporting period. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated income statement under net gain on dealing in derivatives (Note 30).

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

3.14 Hedge accounting

Derivatives designated as hedges are classified as either: (i) hedges of the change in the fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in future cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect future reported net income ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to derivatives designated in this way provided certain criteria are met.

At the inception of a hedging relationship, to qualify for hedge accounting, the Group documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Group also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest income and expense on designated qualifying hedge instruments is included in 'Net interest income'.

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the changes in fair value of both the derivative and the hedged item attributable to hedged risk are recognised in the consolidated income statement and the carrying amount of the hedged item is adjusted accordingly. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to the carrying value of a hedged item, for which the effective interest method is used, is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity or derecognition.

3. Summary of significant accounting policies (continued)**3.14 Hedge accounting (continued)****Cash flow hedges**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective part is recognised immediately in the consolidated income statement. Amounts accumulated in equity are reclassified from other comprehensive income and transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss, in the same line of the consolidated income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting.

Any cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement from other comprehensive income.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income and held in the net investment hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Gains and losses accumulated in equity are reclassified from other comprehensive income and included in the consolidated income statement on the disposal of the foreign operation.

Hedge effectiveness testing

To qualify for hedge accounting, the Group requires that at the inception of the hedge and through its life, each hedge must be expected to be highly effective (prospective effectiveness) and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness depends on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent. Hedge ineffectiveness is recognised in the consolidated income statement.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in “net gains from dealing in derivatives” under net trading income (Note 30).

3. Summary of significant accounting policies (continued)**3.15 Treasury shares and contracts on own shares**

Own equity instruments of the Group which are acquired by the Group or any of its subsidiaries (treasury shares) are deducted from other reserves and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity.

No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of own equity instruments.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

3.16 Financial guarantees

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

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

3.17 Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

Acceptances have been considered within the scope of IAS 39 - Financial Instruments: Recognition and Measurement and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

3.18 Collateral repossessed

The Bank acquires collaterals in settlement of certain loans and advances. These collaterals are recognised at net realisable value on the date of acquisition and are classified as investment properties. Subsequently, the fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on these collaterals are included in the consolidated income statement in the period in which these gains or losses arise.

3.19 Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee - Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rentals payable are recognised as an expense in the period in which they are incurred.

3. Summary of significant accounting policies (continued)**3.19 Leasing (continued)**

Group as a lessor - Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Rental income are recognised in the consolidated income statement on a straight line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

3.20 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position date. Refer Note 3.12 for policy on fair valuation.

The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

Investment properties under development that are being constructed or developed for future use as investment property are measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Subsequent to initial recognition, investment properties under development are measured at fair value. Gains and losses arising from changes in the fair value of investment property under development is included in the consolidated income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property and investment property under development are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3.21 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is charged to the consolidated income statement so as to write off the depreciable amount of property and equipment over their estimated useful lives using the straight-line method. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated.

Estimated useful lives are as follows:

Freehold properties	15 to 25 years
Leasehold and freehold improvements	7 to 10 years
Furniture, equipment and vehicles	3 to 5 years
Computer equipment, software and accessories	4 to 10 years

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

3. Summary of significant accounting policies (continued)**3.22 Capital work in progress**

Capital work in progress is stated at cost. When the asset is ready for use, capital work in progress is transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

3.23 Intangible assets

The Group's intangible assets other than goodwill include intangible assets acquired in business combinations.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets acquired separately are measured on initial recognition at fair value and subsequently at cost less accumulated amortisation and impairment loss.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date which is regarded as their cost.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates and accounted for on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Estimated useful lives are as follows:

Credit card customer relationships	3 years
Wealth Management customer relationships	4 years
Core deposit intangible	5 years

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in consolidated income statement when the asset is derecognised.

3.24 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

3. Summary of significant accounting policies (continued)**3.25 Business combinations and goodwill**

The purchase method of accounting is used to account for business acquisitions by the Group. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognised immediately in the consolidated income statement.

Goodwill acquired on business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss of goodwill is recognised directly in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

3.26 Impairment of non-financial assets

At each consolidated statement of financial position date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. Summary of significant accounting policies (continued)**3.27 Employee benefits****(i) Employees' end of service benefits****(a) Defined benefit plan**

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

Past-service costs are recognised immediately in income, unless the changes to the gratuity plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in other comprehensive income. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

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

(b) Defined contribution plan

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

Pension and national insurance contributions for the UAE and GCC citizens are made by the Group to the Abu Dhabi Retirement Pensions and Benefits Fund in accordance with UAE Federal Law No. 7 of 1999.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

3. Summary of significant accounting policies (continued)**3.27 Employee benefits (continued)****(iii) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Employees' incentive plan shares

The cost of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding incentive plan shares is reflected in the computation of diluted earnings per share (Note 34).

3.28 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation 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 of the amount of the obligation can be made. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions for onerous contracts are recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset only if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. Summary of significant accounting policies (continued)**3.28 Provisions and contingent liabilities (continued)**

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

3.29 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Refer to Note 39 on Business Segment reporting.

3.30 Taxation

Provision is made for taxes at rates enacted or substantively enacted as at statement of financial position date on taxable profits of overseas branches and subsidiaries in accordance with the fiscal regulations of the respective countries in which the Group operates.

3.31 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments classified as fair value through profit or loss, interest and similar income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Dividend income

Dividend income is recognised on the ex-dividend date when the Group's right to receive the payment is established.

3. Summary of significant accounting policies (continued)**3.31 Revenue and expense recognition (continued)****(iii) Fee and commission income**

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

(b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

3.32 Islamic financing

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Ijara, Salam, Mudaraba, Sukuk and Wakala.

Murabaha financing

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

Ijara financing

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

3. Summary of significant accounting policies (continued)**3.32 Islamic financing (continued)****Mudaraba**

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

Salam

Bai Al Salam is a sale contract where the customer (seller) undertakes to deliver/supply a specified tangible asset to the Group (buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

Wakala

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

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

Sukuk

Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity. It is asset-backed trust certificates evidencing ownership of an asset or its usufruct (earnings or benefits) and complies with the principle of Shari'ah.

4. Significant accounting judgements, estimates and assumptions

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of these consolidated financial statements. IFRS requires the management, in preparing the Group's consolidated financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Group's accounting policies that are considered by the Board of Directors (the "Board") to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

Impairment losses on loans and advances

Application of the methodology for assessing loan impairment, as set out in Note 43.6, involves considerable judgement and estimation. For individually significant loans, judgement is required in determining first, whether there are indications that an impairment loss may have already been incurred, and then estimating the amount and timing of expected cash flows, which form the basis of the impairment loss that is recorded.

For collectively assessed loans, judgement is involved in selecting and applying the criteria for grouping together loans with similar credit characteristics, as well as in selecting and applying the statistical and other models used to estimate the losses incurred for each group of loans in the reporting period. The benchmarking of loss rates, the assessment of the extent to which historical losses are representative of current conditions, and the ongoing refinement of modelling methodologies, provide a means of identifying changes that may be required, but the process is inherently one of estimation.

Impairment of available-for-sale investments

The Group exercises judgement to consider impairment on the available-for-sale investments. This includes determination of whether any decline in the fair value below cost of equity instruments is significant or prolonged. In making this judgement, the Group evaluates among other factors, the normal volatility in market price. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

Valuation of financial instruments

The best evidence of fair value is a quoted price for the instrument being measured in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that include one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values are discussed in Note 41. The main assumptions and estimates which management consider when applying a model with valuation techniques are:

4. Significant accounting judgements, estimates and assumptions (continued)**Valuation of financial instruments (continued)**

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are estimated based on the terms of the instrument, and judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- when applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

Fair valuation of investment properties

The fair values of investment properties is based on the highest and best use of the properties, which is their current use. The fair valuation of the investment properties is carried out by independent valuers based on models whose inputs are observable in an active market such as market conditions, market prices, future rental income etc.

The fair value movements on investment properties are disclosed in more detail in Note 13.

Consolidation of Funds

The changes introduced by IFRS 10 – Consolidated Financial Statements require an investor to consolidate an investee when it controls the investee. The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The new definition of control requires the Group to exercise significant judgement on an ongoing basis to determine which entities are controlled, and therefore are required to be consolidated.

5. Cash and balances with central banks

	2017 AED'000	2016 AED'000
Cash on hand	2,729,930	1,145,235
Balances with central banks	2,779,542	3,109,498
Reserves maintained with central banks	10,814,651	9,900,556
Certificate of deposits with UAE Central Bank	3,673,000	5,013,645
Reverse-repo with Central Bank	-	92,968
Total cash and balances with central banks	19,997,123	19,261,902
The geographical concentration is as follows:		
Within the UAE	19,950,521	19,106,421
Outside the UAE	46,602	155,481
	19,997,123	19,261,902

Reserves maintained with central banks represents deposit with the central banks at stipulated percentages of its demand, savings, time and other deposits. These are only available for day to day operations under certain specified conditions.

6. Deposits and balances due from banks, net

	2017 AED'000	2016 AED'000
Nostro balances	1,700,600	724,047
Margin deposits	18,989	40,660
Time deposits	3,808,135	19,955,290
Wakala placements	810,100	360,000
Loans and advances to banks	5,241,378	3,686,987
Gross deposits and balances due from banks	11,579,202	24,766,984
Less: Allowance for impairment (Note 43.6)	(127,246)	(103,369)
Total deposits and balances due from banks, net	11,451,956	24,663,615
The geographical concentration is as follows:		
Within the UAE	3,285,682	10,098,340
Outside the UAE	8,293,520	14,668,644
	11,579,202	24,766,984
Less: Allowance for impairment (Note 43.6)	(127,246)	(103,369)
	11,451,956	24,663,615

The Group hedges its foreign currency time deposits for foreign currency exchange rate risk using foreign exchange swap contracts and designates these instruments as cash flow hedges. The net negative fair value of these swaps was AED 4,708 thousand as at December 31, 2017 (December 31, 2016 – AED Nil).

6. Deposits and balances due from banks, net (continued)

The Group entered into structured financing repurchase agreements whereby loans and advances to banks were pledged and held by counterparties as collateral. The risks and rewards relating to the loans pledged remains with the Group. The loans placed as collateral are governed under collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements. The following table reflects the carrying value of these loans and the associated financial liabilities:

	2017		2016	
	Carrying value of pledged loans AED'000	Carrying value of associated liabilities AED'000	Carrying value of pledged loans AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	412,711	269,677	1,624,801	1,098,684

7. Reverse-repo placements

	2017 AED'000	2016 AED'000
Banks and financial institutions	98,578	1,524,806
The geographical concentration is as follows:		
Within the UAE	48,443	-
Outside the UAE	50,135	1,524,806
	98,578	1,524,806

The Group enters into reverse repurchase agreements under which bonds with fair value of AED 99,832 thousand (December 31, 2016 – bonds with fair value of AED 1,574,002 thousand) and cash collateral of AED 275 thousand (December 31, 2016 – AED Nil) were received as collateral against reverse-repo placements. The risks and rewards relating to these bonds remains with the counterparties. The terms and conditions of these collaterals are governed by Global Master Repurchase Agreements (GMRA).

8. Trading securities

	2017 AED'000	2016 AED'000
Bonds	485,301	418,758
The geographical concentration is as follows:		
Within the UAE	177,175	141,138
Outside the UAE	308,126	277,620
	485,301	418,758

Bonds represent investments mainly in banks and public sector. The fair value of trading securities is based on quoted market prices.

9. Derivative financial instruments

In the ordinary course of business the Group enters into various types of derivative transactions that are affected by variables in the underlying instruments.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
- (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- (c) it is settled at a future date.

Derivative financial instruments which the Group enters into includes forward foreign exchange contracts, interest rate futures, forward rate agreements, commodity swaps, interest rate swaps and currency and interest rate options.

The Group uses the following derivative financial instruments for hedging and trading purposes.

Forward and Futures transactions

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

Swap transactions

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example: fixed rate for floating rate) or a combination of all these (for example: cross-currency interest rate swaps). No exchange of principal takes place except for certain cross currency interest rate swaps. The Group's credit risk represents the potential loss if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis through market risk limits on exposures and credit risk assessment of counterparties using the same techniques as those of lending activities.

Option transactions

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

Derivative contracts can be exchange traded or OTC. The Group values exchange traded derivatives using inputs at market-clearing levels. OTC derivatives are valued using market based inputs or broker/dealer quotations. Where models are required, the Group uses a variety of inputs, including contractual terms, market prices, market volatilities, yield curves and other reference market data.

9. Derivative financial instruments (continued)
Fair value measurement models

For OTC derivatives that trade in liquid markets such as generic forwards, swaps and options, model inputs can generally be verified and model selection conforms to market practice. Certain OTC derivatives trade in less liquid markets with limited pricing information and the determination of fair value for these derivatives is inherently more difficult. Subsequent to initial recognition, the Group only updates valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker dealer quotations or other empirical market data. In the absence of such evidence, Management's best estimates are used.

Derivatives held or issued for trading purposes

The Group's trading activities are predominantly related to offering hedging solutions to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks. The Group also manages risk taken as a result of client transactions or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices.

Derivatives held or issued for hedging purposes

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in currency and interest rates. The Group uses forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps to hedge currency rate and interest rate risks. In all such cases, the hedging relationship and objectives including details of the hedged item and hedging instrument are formally documented and the transactions are accounted for based on the type of hedge.

The table below shows the positive (assets) and negative (liabilities) fair values of derivative financial instruments.

	Fair values		
	Assets AED'000	Liabilities AED'000	Notional AED'000
2017			
Derivatives held or issued for trading			
Foreign exchange derivatives	484,546	379,890	160,934,849
Interest rate and cross currency swaps	2,225,651	2,313,951	114,787,801
Interest rate and commodity options	314,164	333,158	19,709,867
Forward rate agreements	159	163	1,000,000
Futures (exchange traded)	1,670	1,267	19,261,014
Commodity and energy swaps	256,134	248,041	2,064,593
Swaptions	129,968	94,311	7,138,959
Total derivatives held or issued for trading	3,412,292	3,370,781	324,897,083
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	287,165	621,855	57,337,746
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	8,753	217,367	6,492,894
Forward foreign exchange contracts	112,154	24,478	15,908,953
Total derivatives held as cash flow hedges	120,907	241,845	22,401,847
Total derivative financial instruments	3,820,364	4,234,481	404,636,676

9. Derivative financial instruments (continued)

2016	Fair values		
	Assets AED'000	Liabilities AED'000	Notional AED'000
Derivatives held or issued for trading			
Foreign exchange derivatives	606,608	416,641	113,962,359
Interest rate and cross currency swaps	2,401,276	2,424,337	165,014,702
Interest rate and commodity options	256,446	225,476	14,707,345
Forward rate agreements	972	1,130	4,471,101
Futures (exchange traded)	10,612	1,290	20,353,204
Commodity and energy swaps	213,716	200,638	3,098,707
Swaptions	51,174	29,098	5,047,292
Total derivatives held or issued for trading	3,540,804	3,298,610	326,654,710
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	352,416	973,647	52,411,284
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	43,658	187,205	7,152,434
Forward foreign exchange contracts	34,911	333,067	10,874,259
Total derivatives held as cash flow hedges	78,569	520,272	18,026,693
Total derivative financial instruments	3,971,789	4,792,529	397,092,687

The notional amounts indicate the volume of outstanding contracts and are neither indicative of the market risk nor credit risk. Refer to Note 47 for market risk measurement and management.

The net hedge ineffectiveness gains/(losses) recognised in the consolidated income statement are as follows:

	2017 AED'000	2016 AED'000
Losses on the hedged items attributable to risk hedged	(265,700)	(18,597)
Gains on the hedging instruments	286,444	15,421
Fair value hedging ineffectiveness	20,744	(3,176)
Cash flow hedging ineffectiveness	(24)	(102)
Net hedge ineffectiveness gains/(losses)	20,720	(3,278)

The table below provides the Group's forecast of net cash flows in respect of its cash flow hedges and the periods in which these cash flows are expected to impact consolidated income statement, excluding any hedging adjustment that may be applied.

Forecasted net cash flows	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to less than 2 years AED'000	2 years to less than 5 years AED'000	Above 5 years AED'000	Total AED'000
2017	(352)	90,326	29,292	(51,991)	(399)	66,876
2016	(58,653)	(249,376)	37,508	(63,737)	(60,451)	(394,709)

As at December 31, 2017, the Group received cash collateral of AED 340,556 thousand (December 31, 2016 - AED 253,524 thousand) and received bonds with fair value of AED 40,239 thousand (December 31, 2016 - AED 3,167 thousand) against positive fair value of derivative assets.

As at December 31, 2017, the Group placed cash collateral of AED 26,225 thousand (December 31, 2016 - AED 120,878 thousand) and bonds of AED 1,631,481 thousand (December 31, 2016 - AED 2,012,757 thousand) against the negative fair value of derivative liabilities. These collaterals are governed by collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements.

10. Investment securities

	UAE AED'000	Other GCC(*) AED'000	Rest of the world AED'000	Total AED'000
2017				
Available-for-sale investments				
Quoted:				
Government securities	4,811,873	4,988,214	9,167,331	18,967,418
Bonds – Public sector	5,143,005	312,498	3,186,957	8,642,460
Bonds – Banks and financial institutions	4,150,039	933,557	4,198,707	9,282,303
Bonds – Corporate	544,191	88,869	259,062	892,122
Equity instruments	490	-	-	490
Mutual funds	77,541	-	85,802	163,343
Total quoted	14,727,139	6,323,138	16,897,859	37,948,136
Unquoted:				
Government securities	10,910,384	-	-	10,910,384
Equity instruments	319,502	-	13,635	333,137
Total unquoted	11,229,886	-	13,635	11,243,521
Total available-for-sale investments	25,957,025	6,323,138	16,911,494	49,191,657
2016				
Available-for-sale investments				
Quoted:				
Government securities	3,556,811	2,356,584	3,275,588	9,188,983
Bonds – Public sector	5,383,401	456,788	1,336,649	7,176,838
Bonds – Banks and financial institutions	3,189,513	975,724	3,034,272	7,199,509
Bonds – Corporate	565,698	-	254,575	820,273
Equity instruments	548	-	-	548
Mutual funds	74,690	-	83,368	158,058
Total quoted	12,770,661	3,789,096	7,984,452	24,544,209
Unquoted:				
Government securities	8,178,003	-	-	8,178,003
Equity instruments	323,872	-	13,382	337,254
Total unquoted	8,501,875	-	13,382	8,515,257
Total available-for-sale investments	21,272,536	3,789,096	7,997,834	33,059,466

(*) Gulf Cooperation Council

The Group hedges interest rate and foreign currency risks on certain fixed rate and floating rate investments through interest rate and currency swaps and designates these as fair value and cash flow hedges, respectively. The net negative fair value of these swaps at December 31, 2017 was AED 314,720 thousand (December 31, 2016 – net positive fair value AED 269,512 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated income statement.

The Group entered into repurchase agreements whereby bonds were pledged and held by counterparties as collateral. The risks and rewards relating to the investments pledged remains with the Group. The bonds placed as collateral are governed under Global Master Repurchase Agreements (GMRA). The following table reflects the carrying value of these bonds and the associated financial liabilities:

	2017		2016	
	Carrying value of pledged securities AED'000	Carrying value of associated liabilities AED'000	Carrying value of pledged securities AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	323,660	301,180	275,351	264,835

10. Investment securities (continued)

Further, the Group pledged investment securities with fair value amounting to AED 1,305,506 thousand (December 31, 2016 – AED 2,028,708 thousand) as collateral against margin calls. The risks and rewards on these pledged investments remains with the Group.

11. Loans and advances to customers, net

	2017 AED'000	2016 AED'000
Overdrafts (retail and corporate)	4,420,471	5,689,706
Retail loans	30,006,710	29,661,611
Corporate loans	125,438,313	121,242,781
Credit cards	4,367,578	3,873,572
Other facilities	4,955,902	3,932,400
Gross loans and advances to customers	169,188,974	164,400,070
Less: Allowance for impairment (Note 43.6)	(5,906,744)	(5,942,375)
Total loans and advances to customers, net	163,282,230	158,457,695

For Islamic financing assets included in the above table, refer Note 24.

The Group hedges certain fixed rate and floating rate loans and advances to customers for interest rate risk using interest rate swaps and designates these instruments as fair value and cash flow hedges, respectively. The net negative fair value of these swaps at December 31, 2017 was AED 49,785 thousand (December 31, 2016 - net negative fair value of AED 128,190 thousand).

The Group entered into structured financing repurchase agreements whereby loans and advances to customers were pledged and held by counterparties as collateral. The risks and rewards relating to the loans pledged remains with the Group. The loans placed as collateral are governed under collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements. The following table reflects the carrying value of these loans and the associated financial liabilities:

	2017		2016	
	Carrying value of pledged loans AED'000	Carrying value of associated liabilities AED'000	Carrying value of pledged loans AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	30,618	22,848	322,814	165,697

Further, the Group entered into a security lending and borrowing arrangement, under which loans and advances to customers with nominal value of AED 766,629 thousand (December 31, 2016 - AED 795,475 thousand) were lent against high quality bonds with nominal value of AED 554,630 thousand (December 31, 2016 - AED 558,296 thousand). The risks and rewards relating to loans lent and bonds borrowed remains with respective counterparties. The arrangement is governed under the terms and conditions of Global Master Securities Lending Agreement (GMSLA).

12. Investment in associate

Investment in associate represents the Bank's interest in an associate representing 35% equity stake in the entity. The Bank has determined that it exercises significant influence based on the representation in the management of the entity.

The investment in associate has been accounted in the consolidated financial statements using the equity method at the net fair value of the identifiable assets and liabilities of the associate on the date of acquisition.

Details of the investment in associate as at December 31, 2017 and 2016 are as follows:

Name of associate	Ownership interest	Country of incorporation	Principal activities
Four N Property LLC	35%	UAE	Residential facilities for lower income group

For balances and transactions with associate, refer Note 37.

13. Investment properties

	AED'000
As at January 1, 2016	647,647
Additions during the year	505
Disposals during the year	(4,401)
Revaluation of investment properties	16,025
As at January 1, 2017	659,776
Additions during the year	9,177
Revaluation of investment properties	(34,173)
As at December 31, 2017	634,780

For the year 2016, net gains from investment properties includes losses of AED 443 thousand on disposals during the year.

Additions during the year include AED 8,177 thousand (December 31, 2016 - AED Nil), being real estate acquired on settlements of certain loans and advances. This being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

Fair valuations

Valuations are carried out by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The properties were valued during the last quarter of the year.

In estimating the fair values of the properties, the highest and best use of the properties is their current use.

The valuation methodologies considered by external valuers include:

- Direct Comparable method: This method seeks to determine the value of the property from transactions of comparable properties in the vicinity applying adjustments to reflect differences to the subject property.
- Investment method: This method is used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield an investor would expect for an investment of the duration of the interest being valued.

All investment properties of the Group are located within the UAE.

13. Investment properties (continued)

Details of rental income and direct operating expenses relating to investment properties during the year are as follow:

	2017	2016
	AED'000	AED'000
Rental income	46,250	49,435
Direct operating expenses	8,568	8,323

14. Other assets

	2017	2016
	AED'000	AED'000
Interest receivable	1,867,461	1,584,558
Advance tax	7,129	5,575
Prepayments	76,196	58,553
Acceptances (Note 21)	12,593,697	13,262,942
Others	312,555	209,360
Total other assets	14,857,038	15,120,988

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15. Property and equipment, net

	Freehold properties and improvements AED'000	Leasehold improvements AED'000	Furniture, equipment and vehicles AED'000	Computer equipment, software and accessories AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
As at January 1, 2016	870,667	157,088	190,411	696,848	72,242	1,987,256
Exchange difference	(83)	-	(55)	(110)	(23)	(271)
Additions during the year	294	47	3,648	3,102	229,422	236,513
Transfers	13,447	18,596	8,814	102,092	(142,949)	-
Transfer to expenses	-	-	-	-	(27)	(27)
Disposals during the year	-	-	(2,155)	(452)	-	(2,607)
As at January 1, 2017	884,325	175,731	200,663	801,480	158,665	2,220,864
Exchange difference	194	(1)	136	299	64	692
Additions during the year	-	1,884	2,562	5,844	193,877	204,167
Transfers	2,709	14,017	12,133	241,139	(269,998)	-
Transfer to expenses	-	-	-	-	(5,755)	(5,755)
Disposals during the year	(14,446)	(211)	(2,197)	(1,546)	-	(18,400)
As at December 31, 2017	872,782	191,420	213,297	1,047,216	76,853	2,401,568
Accumulated depreciation						
As at January 1, 2016	338,866	121,391	153,926	537,928	-	1,152,111
Exchange difference	(23)	(1)	2	(121)	-	(143)
Charge for the year	38,457	11,521	11,119	83,716	-	144,813
Transfers	-	-	38	(38)	-	-
Disposals during the year	-	-	(2,152)	(450)	-	(2,602)
As at January 1, 2017	377,300	132,911	162,933	621,035	-	1,294,179
Exchange difference	58	2	54	269	-	383
Charge for the year	38,603	13,275	13,433	99,803	-	165,114
Disposals during the year	(14,446)	(114)	(2,103)	(1,541)	-	(18,204)
As at December 31, 2017	401,515	146,074	174,317	719,566	-	1,441,472
Carrying amount						
As at December 31, 2017	471,267	45,346	38,980	327,650	76,853	960,096
As at December 31, 2016	507,025	42,820	37,730	180,445	158,665	926,685

16. Intangible assets

On October 1, 2010, the Bank acquired the retail banking, wealth management and small and medium enterprise businesses (the “Business”) of The Royal Bank of Scotland (“RBS”) in the UAE for a consideration of AED 168,900 thousand. Based on the fair valuation and purchase price allocation exercise performed by an external consultant immediately following the acquisition in 2010, the Bank recognised AED 143,400 thousand as intangible assets and AED 18,800 thousand as goodwill.

Goodwill

For the purpose of impairment testing, goodwill is allocated to the Group’s operating divisions which represent the lowest level within the Group at which goodwill is monitored for internal management purposes, which is not higher than the Group’s business segments.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

Cash generating unit (CGU)	AED’000
Credit cards	10,784
Loans	5,099
Overdrafts	94
Wealth management business	2,823
Total goodwill	18,800

Other intangible assets

Customer relationships	Customer relationship intangible assets represent the value attributable to the business expected to be generated from customers that existed as at the acquisition date. In determining the fair value of customer relationships, credit card and wealth management customers were considered separately, given their differing risk profiles, relationships and loyalty. These relationships are expected to generate material recurring income in the form of interest, fees and commission.
Core deposit intangible	The value of core deposit intangible asset arises from the fact that the deposit base of the Group represents a cheaper source of funding than wholesale or money market funding. The spread between the cost of deposit funding and the cost of wholesale/money market funding represents the value of the core deposit intangible.

Other intangible assets have been fully amortised as at December 31, 2015.

Impairment assessment of goodwill

No impairment losses on goodwill were recognised during the year ended December 31, 2017 (2016 - AED Nil).

The recoverable amounts for the CGUs have been assessed based on their value in use. Value in use for each unit was determined by discounting the future cash flows expected to be generated from the continuing use of these units. Value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and the business plan in 2017. Cash flows were extrapolated using a rate expected to be realized by these businesses. The forecast period is based on the Group’s current perspective with respect to the operation of these units.
- Appropriate discount rates were applied in determining the recoverable amounts for the CGUs. These discount rates were estimated based on capital asset pricing model using data from U.S. bond and UAE capital markets.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonable changes in these assumptions are not expected to cause the recoverable amount of the units to decline below the carrying amount.

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17. Due to banks

	2017	2016
	AED'000	AED'000
Vostro balances	822,121	267,453
Margin deposits	327,814	245,402
Time deposits	4,027,194	3,329,859
Total due to banks	5,177,129	3,842,714

The Bank hedges certain foreign currency time deposits for foreign currency risk using foreign exchange swap contracts and designates these as cash flow hedges. The net positive fair value of these swaps at December 31, 2017 was AED 2 thousand (December 31, 2016 – AED Nil).

18. Deposits from customers

	2017	2016
	AED'000	AED'000
Time deposits	80,765,754	84,044,103
Current account deposits	55,741,567	51,596,345
Savings deposits	13,758,208	12,644,918
Murabaha deposits	11,190,454	6,011,966
Long term government deposits	397,282	411,313
Margin deposits	1,225,121	733,562
Total deposits from customers	163,078,386	155,442,207

For Islamic deposits (excluding Murabaha deposits) included in the above table, refer Note 24.

The Bank hedges certain foreign currency time deposits for foreign currency and floating interest rate risks using foreign exchange and interest rate swaps and designates these swaps as either cash flow or fair value hedges. The net positive fair value of these swaps at December 31, 2017 was AED 38,976 thousand (December 31, 2016 – net negative fair value of AED 88,191 thousand).

19. Euro commercial paper

The details of euro commercial paper (ECP) issuances under the Bank's ECP programme are as follows:

	2017	2016
Currency	AED'000	AED'000
US dollar (USD)	1,159,843	5,972,681
Euro (EUR)	1,279,166	1,309,526
GB pound (GBP)	470,836	1,446,326
Total euro commercial paper	2,909,845	8,728,533

The Bank hedges certain ECP for foreign currency exchange rate risk through foreign exchange swap contracts and designates these instruments as cash flow hedges. The net positive fair value of these hedge contracts as at December 31, 2017 was AED 71,418 thousand (December 31, 2016 - net negative fair value of AED 161,942 thousand).

The effective interest rate on ECPs issued ranges between negative 0.35% p.a. to positive 2.11% p.a. (December 31, 2016 – negative 0.03% p.a. to positive 1.76% p.a.).

19. Euro commercial paper (continued)

Reconciliation of ECP movement to cash flows arising from financing activities is as follows:

	AED'000
As at January 1, 2017	8,728,533
Net proceeds from issuances	9,304,817
Repayments	(15,188,146)
Other movements	64,641
As at December 31, 2017	2,909,845

Net proceeds from issuances include effects of changes in foreign exchange rates and other movements include discount amortised.

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20. Borrowings

The details of borrowings as at December 31, 2017 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	-	726,523	887,069	427,269	2,040,861
	Chinese renminbi (CNH)	-	393,335	-	-	393,335
	Euro (EUR)	-	229,550	-	87,677	317,227
	Swiss franc (CHF)	-	-	301,908	-	301,908
	Japanese yen (JPY)	-	48,973	-	-	48,973
	Hong Kong dollar (HKD)	-	149,837	225,346	178,076	553,259
	US dollar (USD)	2,753,878	8,503,789	146,833	8,968,534	20,373,034
		2,753,878	10,052,007	1,561,156	9,661,556	24,028,597
Bilateral loans – floating rate	US dollar (USD)	1,285,550	2,746,000	-	-	4,031,550
Syndicated loan – floating rate	US dollar (USD)	734,081	2,932,211	-	-	3,666,292
Certificate of deposits issued	Indian rupee (INR)	283,304	-	-	-	283,304
	US dollar (USD)	1,852,189	1,934,096	-	-	3,786,285
Subordinated notes – fixed rate	US dollar (USD)	-	-	-	3,786,625	3,786,625
	Swiss franc (CHF)	-	-	-	378,837	378,837
Borrowings through repurchase agreements	US dollar (USD)	305,030	-	-	202,333	507,363
	Indian rupee (INR)	86,342	-	-	-	86,342
		7,300,374	17,664,314	1,561,156	14,029,351	40,555,195

The Group hedges certain borrowings for foreign currency exchange rate risk and interest rate risk using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net negative fair value of these swaps as at December 31, 2017 was AED 196,811 thousand.

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Notes to the consolidated financial statements

December 31, 2017

20. Borrowings (continued)

The details of borrowings as at December 31, 2016 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	-	672,505	77,142	-	749,647
	Chinese renminbi (CNH)	157,452	350,729	-	-	508,181
	Euro (EUR)	-	164,183	46,691	73,796	284,670
	Malaysian ringgit (MYR)	576,215	-	-	-	576,215
	Swiss franc (CHF)	388,677	-	284,354	-	673,031
	UAE dirham (AED)	500,358	-	-	-	500,358
	Japanese yen (JPY)	47,263	47,647	-	-	94,910
	Hong Kong dollar (HKD)	-	-	294,740	103,451	398,191
	US dollar (USD)	3,203,777	7,686,977	3,096,121	2,749,226	16,736,101
		4,873,742	8,922,041	3,799,048	2,926,473	20,521,304
Bilateral loans – floating rate	US dollar (USD)	2,018,887	1,285,550	-	-	3,304,437
Syndicated loan – floating rate	US dollar (USD)	734,600	2,919,383	-	-	3,653,983
Certificate of deposits issued	Great Britain pound (GBP)	898,422	-	-	-	898,422
	Euro (EUR)	189,304	-	-	-	189,304
	Indian rupee (INR)	307,793	-	-	-	307,793
	US dollar (USD)	1,707,110	1,835,966	-	-	3,543,076
Subordinated notes – fixed rate	US dollar (USD)	-	-	-	3,702,602	3,702,602
	Swiss franc (CHF)	-	-	-	364,893	364,893
Borrowings through repurchase agreements	US dollar (USD)	956,327	370,556	-	202,333	1,529,216
		11,686,185	15,333,496	3,799,048	7,196,301	38,015,030

The Group hedges certain borrowings for foreign currency exchange rate risk and interest rate risk using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net negative fair value of these swaps as at December 31, 2016 was AED 954,122 thousand.

Abu Dhabi Commercial Bank PJSC

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December 31, 2017

20. Borrowings (continued)

Interests are payable in arrears and the contractual coupon rates as at December 31, 2017 are as follows:

Instrument	CCY	Within 1 year	1-3 years	3-5 years	Over 5 years
Global medium term notes	AUD	-	Fixed rate of 4.75% p.a.	Fixed rate between 3.73% p.a. to 3.92 % p.a. and quarterly coupons with 138 basis points over bank bill swap rate (BBSW)	Fixed rate of 4.50% p.a.
	CNH	-	Fixed rate between 3.85% p.a. to 4.50% p.a.	-	-
	EUR	-	Quarterly coupons between 46 to 59 basis points over Euribor	-	Fixed rate of 0.75% p.a.
	JPY	-	Fixed rate of 0.68% p.a.	-	-
	HKD	-	Fixed rate between 2.30% p.a. to 2.46% p.a.	Fixed rate between 2.69% p.a. to 3.20% p.a.	Fixed rate between 2.84% p.a. to 2.87% p.a.
	USD	Fixed rate of 2.50% p.a.	Fixed rate between 2.63% p.a. to 3.00% p.a. and quarterly coupons between 61 to 90 basis points over Libor	Quarterly coupons between 100 to 105 basis points over Libor	Fixed rate between 4.30% p.a. to 5.13% p.a. (*)
Bilateral loans – floating rate	USD	Monthly coupons between 80 to 85 basis points over Libor	Monthly coupons between 60 to 75 basis points over Libor and quarterly coupons with 60 basis points over Libor	-	-
Syndicated loan – floating rate	USD	Quarterly coupons with 60 basis point over Libor	Monthly coupons with 73 basis points over Libor and quarterly coupons of 95 basis points over Libor	-	-
Certificate of deposits issued	INR	Fixed rate between 6.35% p.a. to 7.05% p.a.	-	-	-
	USD	Fixed rate of 2.00% p.a.	Fixed rate between 2.41 % p.a. to 2.48 % p.a. and quarterly coupons with 114 basis points over Libor	-	-
Subordinated notes – fixed rate	USD	-	-	-	Fixed rate between 3.13% p.a. to 4.50% p.a.
Borrowings through repurchase agreements	CHF	-	-	-	Fixed rate of 1.89% p.a.
	USD	Quarterly coupons between 130 to 145 basis points over Libor	-	-	Semi-annual coupons between negative 20 to negative 18 basis points over Libor
	INR	Fixed rate between 3.00% p.a. to 6.05 % p.a.	-	-	-

(*) includes AED 8,269,456 thousand 30 year accreting notes with yield ranging between 4.30% p.a. to 5.13% p.a. and are callable at the end of every 5th or 6th year from issue date.

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December 31, 2017

20. Borrowings (continued)

The subordinated fixed rate notes qualify as Tier 2 subordinated loan capital for the first 5 year period till 2018 and thereafter are amortised at the rate of 20% per annum until 2023 for capital adequacy calculation (Note 52). This has been approved by the Central Bank of the UAE. Subordinated notes of AED 1,474,949 thousand mature in 2023 but are callable after 5 years from the issuance date.

Reconciliation of borrowings movement to cash flows arising from financing activities is as follows:

	AED'000
As at January 1, 2017	38,015,030
Net proceeds from issuances	19,789,726
Repayments	(18,284,459)
Other movements	1,034,898
As at December 31, 2017	40,555,195

Net proceeds from issuances include effects of changes in foreign exchange rates on borrowings. Other movements include interest capitalised on accreting notes, discount on issuances amortised and fair value hedges.

21. Other liabilities

	2017 AED'000	2016 AED'000
Interest payable	1,015,277	1,022,845
Recognised liability for defined benefit obligation	453,866	421,275
Accounts payable and other creditors	249,627	271,313
Deferred income	631,168	635,476
Acceptances (Note 14)	12,593,697	13,262,942
Others	1,659,684	1,503,508
Total other liabilities	16,603,319	17,117,359

Defined benefit obligation

The Group provides gratuity benefits to its eligible employees in UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out in the last quarter of 2017 by a registered actuary in the UAE. The present value of the defined benefit obligation and the related current and past service cost, were measured using the Projected Unit Credit Method.

Key assumptions used in the actuarial valuation are as follows:

Discount rate: 3.25% p.a.

Salary increment rate: 5.00% p.a. in 2018 and 3.00% p.a. thereafter.

Demographic assumptions for mortality and retirement were used in valuing the liabilities and benefits under the plan.

21. Other liabilities (continued)
Defined benefit obligation (continued)

The liability would be higher by AED 13,829 thousand had the discount rate used in the assumption been lower by 0.50% and the liability would be lower by AED 13,033 thousand had the discount rate used in the assumption been higher by 0.50%. Similarly, the liability would be higher by AED 13,375 thousand had the salary increment rate used in the assumption been higher by 0.50% and the liability would be lower by AED 12,728 thousand had the salary increment rate used in the assumption been lower by 0.50%.

The movement in defined benefit obligation is as follows:

	2017	2016
	AED'000	AED'000
Opening balance	421,275	384,677
Net charge during the year(*)	56,029	55,847
Actuarial gains on defined benefit obligation	(2,022)	(1,573)
Benefits paid	(21,416)	(17,676)
Closing balance	453,866	421,275

(*) recognised under "staff costs" in the consolidated income statement

Defined benefit contribution

Under defined contribution plans, the Group pays contributions to Abu Dhabi Retirement Pensions and Benefits Fund for UAE National employees and to respective pension funds for other GCC National employees. The charge for the year in respect of these contributions is AED 32,769 thousand (2016 – AED 28,863 thousand). As at December 31, 2017, pension payable of AED 3,764 thousand has been classified under other liabilities – others (December 31, 2016 – AED 3,461 thousand).

22. Share capital

	Authorised	Issued and fully paid	
		2017	2016
	AED'000	AED'000	AED'000
Ordinary shares of AED 1 each	10,000,000	5,198,231	5,198,231

During the year, the Bank's Articles of Association were amended and as per the new articles, the authorised share capital of the Bank has been increased to AED 10,000,000 thousand comprising of 10,000,000 thousand shares having a nominal value of AED 1 per share.

In December 2016, the Board of Directors approved cancellation of 397,366,172 shares which were acquired by the Bank during the buyback period (Note 23). The cancellation is effective from January 8, 2017 as the period of two years for the sale of purchased shares ended on January 5, 2017. The cancellation of treasury shares being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

As at December 31, 2017, Abu Dhabi Investment Council held 62.523% (December 31, 2016 – 62.523%) of the Bank's issued and fully paid up share capital.

Dividends

For the year ended December 31, 2017, the Board of Directors has proposed to pay a cash dividend of AED 2,183,257 thousand, being AED 0.42 dividend per share and representing 42% of the paid up capital (December 31, 2016 - AED 2,079,292 thousand, being AED 0.40 dividend per share and representing 40% of the paid up capital). This is subject to the approval of the shareholders in the Annual General Meeting.

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Notes to the consolidated financial statements

December 31, 2017

23. Other reserves

Reserves movement for the year ended December 31, 2017:

	Treasury shares AED'000	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Cash flow hedge reserve AED'000	Cumulative changes in fair values AED'000	Total AED'000
As at January 1, 2017	-	(100,059)	2,797,799	2,797,799	2,000,000	150,000	(78,741)	(143,493)	13,978	7,437,283
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	13,546	-	-	13,546
Net fair value changes on cash flow hedges	-	-	-	-	-	-	-	320,765	-	320,765
Net fair value changes reclassified to consolidated income statement	-	-	-	-	-	-	-	(367,642)	-	(367,642)
Net fair value changes on available-for-sale investments	-	-	-	-	-	-	-	-	92,545	92,545
Net fair value changes released to consolidated income statement on disposal of available-for-sale investments	-	-	-	-	-	-	-	-	(46,715)	(46,715)
Total other comprehensive gain/(loss) for the year	-	-	-	-	-	-	13,546	(46,877)	45,830	12,499
Fair value adjustments	-	(1,939)	-	-	-	-	-	-	-	(1,939)
Shares – vested portion (Note 25)	-	37,084	-	-	-	-	-	-	-	37,084
As at December 31, 2017	-	(64,914)	2,797,799	2,797,799	2,000,000	150,000	(65,195)	(190,370)	59,808	7,484,927
As at January 1, 2016	(1,825,653)	(92,959)	2,797,799	2,797,799	2,000,000	150,000	(73,260)	3,057	(100,219)	5,656,564
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(5,481)	-	-	(5,481)
Net fair value changes on cash flow hedges	-	-	-	-	-	-	-	(314,683)	-	(314,683)
Net fair value changes reclassified to consolidated income statement	-	-	-	-	-	-	-	168,133	-	168,133
Net fair value changes on available-for-sale investments	-	-	-	-	-	-	-	-	167,287	167,287
Net fair value changes released to consolidated income statement on disposal of available-for-sale investments	-	-	-	-	-	-	-	-	(53,090)	(53,090)
Total other comprehensive (loss)/gain for the year	-	-	-	-	-	-	(5,481)	(146,550)	114,197	(37,834)
Shares purchased	-	(46,354)	-	-	-	-	-	-	-	(46,354)
Fair value adjustments	-	4,950	-	-	-	-	-	-	-	4,950
Shares – vested portion (Note 25)	-	34,304	-	-	-	-	-	-	-	34,304
Cancellation of treasury shares (Note 22)	1,825,653	-	-	-	-	-	-	-	-	1,825,653
As at December 31, 2016	-	(100,059)	2,797,799	2,797,799	2,000,000	150,000	(78,741)	(143,493)	13,978	7,437,283

For more information on reserves refer Note 52.

24. Islamic financing
Islamic financing assets

	2017	2016
	AED'000	AED'000
Murabaha	3,453,938	2,589,031
Ijara financing	11,452,962	9,552,393
Salam	7,044,886	6,564,582
Others	150,381	169,878
Gross Islamic financing assets	22,102,167	18,875,884
Less: Allowance for impairment	(434,002)	(376,892)
Net Islamic financing assets	21,668,165	18,498,992

Gross Ijara and related present value of the minimum Ijara payments

	2017	2016
	AED'000	AED'000
Not later than one year	1,078,293	1,018,822
Later than one year but not later than five years	5,598,134	4,868,456
Later than five years	7,271,664	6,068,848
Gross Ijara	13,948,091	11,956,126
Less: Deferred income	(2,495,129)	(2,403,733)
Net Ijara	11,452,962	9,552,393
Net present value		
Not later than one year	885,400	812,845
Later than one year but not later than five years	4,596,702	3,890,182
Later than five years	5,970,860	4,849,366
Total net present value	11,452,962	9,552,393

Income from Islamic financing

	2017	2016
	AED'000	AED'000
Murabaha	128,322	101,525
Ijara financing	465,743	320,557
Salam	479,055	414,896
Others	8,551	6,700
Total income from Islamic financing	1,081,671	843,678

Islamic deposits

	2017	2016
	AED'000	AED'000
Current account deposits	4,751,338	3,480,635
Margin deposits	61,028	40,556
Mudaraba savings deposits	6,530,040	5,840,816
Mudaraba term deposits	882,892	1,009,604
Wakala deposits	2,498,714	1,615,814
Total Islamic deposits	14,724,012	11,987,425

Islamic profit distribution

	2017	2016
	AED'000	AED'000
Mudaraba savings and term deposits	64,435	51,937
Wakala deposits	57,605	37,973
Sukuk	-	48,609
Total Islamic profit distribution	122,040	138,519

24. Islamic financing (continued)

In November 2011, ADCB through its subsidiary ADCB Islamic Finance (Cayman) Limited (Sukuk company) issued a Shari'ah compliant financing arrangement - Sukuk amounting to USD 500,000 thousand (AED 1,836,500 thousand). The Sukuk carried a profit rate of 4.07% p.a. payable semi annually and matured in November 2016. The Sukuk was listed on London Stock Exchange.

25. Employees' incentive plan shares, net

The Group operates Deferred Compensation Plan (the "Plan") to recognise and retain good performing employees. Under the Plan, the employees are granted shares of the Bank when they meet the vesting conditions at a price prevailing at the grant date. These shares are acquired and held by a subsidiary of the Bank until vesting conditions are met. The Group's Nomination, Compensation and HR Committee determines and approves the shares to be granted to employees based on the Group's key performance indicators.

For the year ended December 31, 2017, the Group had five incentive plans in force as described below:

Grant date	January 1, 2017	January 1, 2017	January 1, 2016	January 1, 2016	January 1, 2015
Number of shares granted	2,675,000	2,845,312	2,075,000	4,096,402	1,795,000
Fair value of the granted shares at the grant date in AED thousand	18,458	19,633	13,674	26,995	12,619
Vesting date	December 31, 2020	December 31, 2019	December 31, 2019	December 31, 2018	December 31, 2018

Vesting conditions – Three/four years' service from the grant date or meeting special conditions during the vesting period (death, disability, retirement, termination or achieving the budgeted performance).

The movement of plan shares is as follows:

	2017	2016
Opening balance	9,067,135	6,727,404
Shares granted during the year	5,520,312	6,171,402
Exercised during the year	(4,724,993)	(3,670,727)
Forfeited during the year	(248,432)	(160,944)
Closing balance	9,614,022	9,067,135
Amount of "Plan" cost recognised under "staff costs" in the consolidated income statement (AED '000)	37,084	34,304

Total number of un-allotted shares under the Plan as at December 31, 2017 were 3,343,244 shares (December 31, 2016 – 8,615,124 shares). These un-allotted shares include forfeited shares and shares purchased for future plans. The Group's Nomination, Compensation and HR Committee's intention is to include these shares in the next incentive plan scheme.

26. Capital notes

In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to ADCB's Tier I regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes").

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank. The Notes are direct, unsecured, subordinated obligations of the Bank and rank pari passu without any preference among themselves and the rights and claims of the Note holders will be subordinated to the claims of Senior Creditors. The Notes bore interest at the rate of 6% per annum payable semi-annually until February 2014, and bear a floating interest rate of six month Eibor plus 2.3% per annum thereafter. However the Bank may at its sole discretion elect not to make a coupon payment. The Note holders do not have a right to claim the coupon and an election by the Bank not to service the coupon is not considered an event of default. In addition, there are certain circumstances ("non-payment event") under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

26. Capital notes (continued)

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

27. Interest income

	2017	2016
	AED'000	AED'000
Loans and advances to banks	440,271	477,720
Loans and advances to customers	7,104,867	6,791,680
Available-for-sale investments	1,214,010	632,233
Trading securities	13,414	5,970
Total interest income	8,772,562	7,907,603

28. Interest expense

	2017	2016
	AED'000	AED'000
Deposits from banks	46,810	23,363
Deposits from customers	2,002,789	1,654,764
Euro commercial paper	104,671	97,024
Borrowings	876,865	636,438
Total interest expense	3,031,135	2,411,589

29. Net fees and commission income

	2017	2016
	AED'000	AED'000
Fees and commission income		
Card related fees	864,153	775,016
Loan processing fees	583,274	527,277
Accounts related fees	55,601	42,526
Trade finance commission	263,645	252,450
Insurance commission	72,605	89,424
Asset management and investment services	109,600	99,014
Brokerage fees	15,796	16,831
Other fees	106,572	92,607
Total fees and commission income	2,071,246	1,895,145
Fees and commission expense	(564,204)	(422,842)
Net fees and commission income	1,507,042	1,472,303

30. Net trading income

	2017	2016
	AED'000	AED'000
Net gains from dealing in derivatives	12,102	81,961
Net gains from dealing in foreign currencies	349,660	434,378
Net (losses)/gains from trading securities	(7,785)	5,514
Net trading income	353,977	521,853

31. Other operating income

	2017	2016
	AED'000	AED'000
Property management income	152,170	150,017
Rental income	57,444	61,148
Dividend income	1,850	5,929
Net gains from disposal of available-for-sale investments	46,715	53,090
Losses arising from retirement of hedges	(4,454)	(8,598)
Others	113,695	22,950
Total other operating income	367,420	284,536

32. Operating expenses

	2017 AED'000	2016 AED'000
Staff expenses	1,709,057	1,656,860
Depreciation (Note 15)	165,114	144,813
General administrative expenses	1,073,410	994,189
Total operating expenses	2,947,581	2,795,862

33. Impairment allowances

	2017 AED'000	2016 AED'000
Charge for the year	1,929,269	1,689,913
Recoveries during the year	(258,906)	(137,597)
Impairment allowance on loans and advances, net (Note 43.6)	1,670,363	1,552,316
Recoveries on available-for-sale investments	-	(19,209)
Impairment allowance/(release) – others	3,257	(12,589)
Total impairment allowances	1,673,620	1,520,518

34. Earnings per share
Basic and diluted earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Bank and the weighted average number of equity shares outstanding. Diluted earnings per share is calculated by adjusting the weighted average number of equity shares outstanding for the dilutive effects of potential equity shares held on account of employees' incentive plan.

	2017 AED'000	2016 AED'000
Net profit for the year attributable to the equity holders of the Bank	4,277,608	4,148,651
Less: Coupon paid on capital notes (Note 26)	(155,866)	(138,013)
Net adjusted profit for the year attributable to the equity holders of the Bank (a)	4,121,742	4,010,638
	Number of shares in thousand	
Weighted average number of shares in issue throughout the year	5,198,231	5,595,597
Less: Weighted average number of treasury shares arising on buy back (Note 22)	-	(397,366)
Less: Weighted average number of shares resulting from Employees' incentive plan shares	(16,607)	(17,115)
Weighted average number of equity shares in issue during the year for basic earnings per share (b)	5,181,624	5,181,116
Add: Weighted average number of shares resulting from Employees' incentive plan shares	16,607	17,115
Weighted average number of equity shares in issue during the year for diluted earnings per share (c)	5,198,231	5,198,231
Basic earnings per share (AED) (a)/(b)	0.80	0.77
Diluted earnings per share (AED) (a)/(c)	0.79	0.77

35. Operating lease

Group as lessee

Operating leases relates to leases of branch premises, offices and ATMs of the Group with lease terms mainly up to three years. The Group has the option to renew the lease agreements but not the option to purchase the leased premises at the expiry of the lease periods.

	2017 AED'000	2016 AED'000
Payments recognised as an expense		
Minimum lease payments	85,855	82,728
Non-cancellable operating lease commitments		
Not later than one year	46,412	43,822
Later than one year but not later than five years	91,703	78,278
Later than five year	36,053	2,833
Total non-cancellable operating lease commitments	174,168	124,933

Group as lessor

Operating leases relate to properties owned by the Group with varied lease terms, with an option to extend the lease term. All operating lease contracts contain market review clause in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental incomes earned by the Group from its investment properties and direct operating expenses arising on the investment properties for the year are set out in Note 13.

	2017 AED'000	2016 AED'000
Non-cancellable operating lease receivables		
Not later than one year	26,733	22,932
Later than one year but not later than five years	30,229	35,196
Later than five year	36,229	35,531
Total non-cancellable operating lease receivables	93,191	93,659

36. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flow comprise the following statement of financial position amounts:

	2017 AED'000	2016 AED'000
Cash and balances with central banks	19,997,123	19,261,902
Deposits and balances due from banks, net (excluding loans and advances to banks, net)	6,337,824	21,079,997
Reverse-repo placements	98,578	1,524,806
Due to banks	(5,177,129)	(3,842,714)
	21,256,396	38,023,991
Less: Cash and balances with central banks, deposits and balances due from banks, net and reverse-repo placements – with original maturity of more than three months	(6,641,189)	(4,867,005)
Add: Due to banks – with original maturity of more than three months	1,196,341	1,494,133
Total cash and cash equivalents	15,811,548	34,651,119

37. Related party transactions

The Group enters into transactions with the parent and its related entities, associate, funds under management, directors, senior management and their related entities and the Government of Abu Dhabi (ultimate controlling party and its related entities) in the ordinary course of business at commercial interest and commission rates.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors, chief executive officer and his direct reports.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Details of all transactions in which a Director and/or related parties might have actual or potential conflicts are provided to the Board of Directors (the "Board") for its review and approval. Where a Director is interested, that Director neither participates in the discussions nor votes on such matters. The Bank's policy is, so far as possible, to engage in transactions with related parties only on arm's length terms and in accordance with relevant laws and regulations. The Board Secretariat maintains a conflicts and related parties register which is regularly reviewed by the Board Corporate Governance Committee. In addition, the Board maintains awareness of other commitments of its Directors and senior management. The Bank has implemented a Directors' conflict of interest policy and, for senior management, a Code of Conduct. As a result of written declarations submitted by each of the Board members, the Board satisfies itself that the other commitments of the Directors do not conflict with their duties or that, where conflicts arise, the Board is sufficiently aware and policies are in place to minimise the risks.

Parent and ultimate controlling party

Abu Dhabi Investment Council holds 62.523% (December 31, 2016 - 62.523%) of the Bank's issued and fully paid up share capital (Note 22). Abu Dhabi Investment Council was established by the Government of Abu Dhabi pursuant to law No. 16 of 2006 and so the ultimate controlling party is the Government of Abu Dhabi. Related party balances and transactions included in the consolidated statement of financial position and consolidated income statement, respectively, are as follows:

	Ultimate controlling party and its related parties AED'000	Directors and their related parties AED'000	Key management AED'000	Associate and funds under management AED'000	Total AED'000
2017					
Balances:					
Deposits and balances due from banks	1,071,407	-	-	-	1,071,407
Reverse-repo placements	48,443	-	-	-	48,443
Trading securities	53,113	-	-	-	53,113
Derivative financial instruments - assets	1,169,555	-	-	-	1,169,555
Investment securities	17,225,691	-	-	163,343	17,389,034
Loans and advances to customers	21,373,743	208,409	30,661	266,562	21,879,375
Other assets	165,685	3,698	9	3,472	172,864
Due to banks	116,516	-	-	-	116,516
Derivative financial instruments - liabilities	375,215	-	-	-	375,215
Deposits from customers	38,745,988	248,796	40,694	61,551	39,097,029
Other liabilities	181,805	2,592	12,017	520	196,934
Capital notes	4,000,000	-	-	-	4,000,000
Commitments and contingent liabilities	1,842,273	150,802	2,260	29,266	2,024,601
Transactions:					
Interest, Islamic financing income, fees and other income	1,396,374	10,875	1,123	42,690	1,451,062
Interest expense and Islamic profit distribution	631,852	1,036	665	1	633,554
Derivative income	180,271	-	-	-	180,271
Share in profit of associate	-	-	-	9,845	9,845
Coupon paid on Capital notes	155,866	-	-	-	155,866

37. Related party transactions (continued)

2016	Ultimate controlling party and its related parties AED'000	Directors and their related parties AED'000	Key management AED'000	Associate and funds under management AED'000	Total AED'000
Balances:					
Deposits and balances due from banks	8,365,227	-	-	-	8,365,227
Trading securities	27,660	-	-	-	27,660
Derivative financial instruments - assets	1,366,421	-	-	-	1,366,421
Investment securities	13,106,324	-	-	158,085	13,264,409
Loans and advances to customers	23,653,122	304,837	36,371	293,232	24,287,562
Other assets	113,542	1,230	-	6,618	121,390
Due to banks	90,949	-	-	-	90,949
Derivative financial instruments - liabilities	532,920	-	-	-	532,920
Deposits from customers	34,839,067	216,577	30,075	58,814	35,144,533
Borrowings	51,164	-	-	-	51,164
Other liabilities	220,116	1,252	9,555	636	231,559
Capital notes	4,000,000	-	-	-	4,000,000
Commitments and contingent liabilities	7,291,066	92,007	1,633	28,096	7,412,802
Transactions:					
Interest, Islamic financing income, fees and other income	491,222	11,407	1,216	56,816	560,661
Interest expense and Islamic profit distribution	334,390	1,578	293	4	336,265
Derivative income	62,168	-	-	-	62,168
Share in profit of associate	-	-	-	7,821	7,821
Coupon paid on Capital notes	138,013	-	-	-	138,013

As at December 31, 2017, Funds under management held 4,232,646 shares (December 31, 2016: 6,313,612 shares) of the Bank. During the year, the Bank paid dividend of AED 2,279 thousand (2016: AED 2,903 thousand) to these Funds.

Remuneration of key management employees and Board of Directors fees and expenses during the year are as follows:

	2017 AED'000	2016 AED'000
Short term benefits	26,539	25,623
Post-employment benefits	2,260	2,292
Variable pay benefits	23,475	29,650
	52,274	57,565
Board of Directors fees and expenses	10,001	9,629

In addition to the above, the key management personnel were granted long term deferred compensation including share based payments of AED 20,725 thousand (2016 - AED 26,900 thousand).

38. Commitments and contingent liabilities

The Group had the following commitments and contingent liabilities as at December 31:

	2017 AED'000	2016 AED'000
Letters of credit	3,869,821	6,400,474
Guarantees	25,214,764	27,321,772
Commitments to extend credit – revocable (*)	12,024,786	11,021,112
Commitments to extend credit – irrevocable	11,877,423	13,656,251
Total commitments on behalf of customers	52,986,794	58,399,609
Commitments for future capital expenditure	380,094	307,268
Commitments to invest in investment securities	59,683	57,202
Total commitments and contingent liabilities	53,426,571	58,764,079

(*) includes AED 6,805,627 thousand (December 31, 2016: AED 7,032,650 thousand) for undrawn credit card limits.

Credit-related commitments

Credit-related commitments include commitments to extend credit, letters of credit and guarantees which are designed to meet the requirements of the Bank's customers. Irrevocable commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Revocable commitments to extend credit represent commitments to make loan and advances and revolving credits which can be cancelled by the Bank unconditionally without any contractual obligations. Commitments generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. These contracts would be exposed to market risk if issued or extended at a fixed rate of interest. However these contracts are primarily made at floating rates.

Commitments and contingent liabilities which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

39. Operating segments

The Group has four reportable segments as described below. These segments offer different products and services and are managed separately based on the Group's management and internal reporting structure. The Group's Management Executive Committee (the Chief Operating Decision Maker "CODM"), is responsible for allocation of resources to these segments, whereas, the Group's Performance Management Committee, based on delegation from CODM reviews the performance of these segments on a regular basis.

The following summary describes the operations in each of the Group's reportable segments:

Consumer banking - comprises of retail, wealth management, Islamic financing and investment in associate. It includes loans, deposits and other transactions and balances with retail customers and corporate and private accounts of high net worth individuals and fund management activities.

39. Operating segments (continued)

Wholesale banking - comprises of business banking, cash management, trade finance, corporate finance, small and medium enterprise financing, investment banking, Indian operations, Islamic financing, infrastructure and asset finance, government and public enterprises. It includes loans, deposits and other transactions and balances with corporate customers.

Investments and treasury - comprises of central treasury operations, management of the Group's investment portfolio and interest rate, currency and commodity derivative portfolio and Islamic financing. Investments and treasury undertakes the Group's funding and centralised liquidity management activities through borrowings, issue of debt securities and use of derivatives for risk management. It also undertakes trading and corporate finance activities and investing in liquid assets such as short-term placements, corporate and government debt securities.

Property management - comprises of real estate management and engineering service operations of subsidiaries - Abu Dhabi Commercial Properties LLC, Abu Dhabi Commercial Engineering Services LLC and rental income of ADCB.

Information regarding the results of each reportable segment is shown below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Performance Management Committee. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The following is an analysis of the Group's revenue and results by operating segment for the year:

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
2017					
Net interest income	2,626,237	1,732,196	1,294,052	88,942	5,741,427
Net income from Islamic financing	481,956	238,017	234,366	5,292	959,631
Total net interest and Islamic financing income	3,108,193	1,970,213	1,528,418	94,234	6,701,058
Non-interest income	973,237	765,445	250,073	205,511	2,194,266
Operating expenses	(1,838,997)	(777,348)	(209,550)	(121,686)	(2,947,581)
Operating profit before impairment allowances	2,242,433	1,958,310	1,568,941	178,059	5,947,743
Impairment allowances	(1,182,838)	(487,525)	-	(3,257)	(1,673,620)
Share in profit of associate	9,845	-	-	-	9,845
Profit before taxation	1,069,440	1,470,785	1,568,941	174,802	4,283,968
Overseas income tax expense	-	(6,360)	-	-	(6,360)
Net profit for the year	1,069,440	1,464,425	1,568,941	174,802	4,277,608
Capital expenditure					199,721
As at December 31, 2017					
Segment assets	76,824,996	110,022,054	77,549,185	607,060	265,003,295
Segment liabilities	52,560,262	83,237,479	96,711,511	49,103	232,558,355

39. Operating segments (continued)

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
2016					
Net interest income	2,557,455	1,730,381	1,096,797	111,381	5,496,014
Net income from Islamic financing	431,726	180,482	89,224	3,727	705,159
Total net interest and Islamic financing income	2,989,181	1,910,863	1,186,021	115,108	6,201,173
Non-interest income	963,611	668,334	413,995	248,334	2,294,274
Operating expenses	(1,781,678)	(701,123)	(197,110)	(115,951)	(2,795,862)
Operating profit before impairment allowances	2,171,114	1,878,074	1,402,906	247,491	5,699,585
Impairment (allowances)/recoveries	(942,934)	(596,793)	19,209	-	(1,520,518)
Share in profit of associate	7,821	-	-	-	7,821
Profit before taxation	1,236,001	1,281,281	1,422,115	247,491	4,186,888
Overseas income tax expense	-	(29,820)	-	-	(29,820)
Net profit for the year	1,236,001	1,251,461	1,422,115	247,491	4,157,068
Capital expenditure					236,858
As at December 31, 2016					
Segment assets	73,885,539	105,660,754	78,147,077	595,887	258,289,257
Segment liabilities	51,659,677	80,948,903	95,283,613	46,179	227,938,372

Other disclosures

The following is the analysis of the total operating income of each segment between income from external parties and inter-segment.

	External		Inter-segment	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
Consumer banking	5,069,944	4,975,754	(988,514)	(1,022,962)
Wholesale banking	3,667,982	3,269,908	(932,324)	(690,711)
Investments and treasury	(21,633)	14,001	1,800,124	1,586,015
Property management	179,031	235,784	120,714	127,658
Total operating income	8,895,324	8,495,447	-	-

Geographical information

The Group operates in two principal geographic areas i.e. domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the UAE branches and subsidiaries. International area represents the operations of the Group that originates from its branches in India, Jersey and through its subsidiaries outside UAE. The information regarding Group's revenue and non-current assets by geographical location are detailed as follows:

	Domestic		International	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
Income				
Net interest and Islamic financing income	6,703,609	6,198,091	(2,551)	3,082
Non-interest income	2,176,550	2,270,639	17,716	23,635
Non-current assets				
Investment in associate	205,372	204,977	-	-
Investment properties	634,780	659,776	-	-
Property and equipment, net	954,697	921,938	5,399	4,747
Intangible assets	18,800	18,800	-	-

40. Financial instruments

Categories of financial instruments

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39.

	Held-for-trading AED'000	Hedging derivatives AED'000	Available- for-sale AED'000	Amortised cost AED'000	Total AED'000
2017					
Assets					
Cash and balances with central banks	-	-	-	19,997,123	19,997,123
Deposits and balances due from banks, net	-	-	-	11,451,956	11,451,956
Reverse-repo placements	-	-	-	98,578	98,578
Trading securities	485,301	-	-	-	485,301
Derivative financial instruments	3,412,292	408,072	-	-	3,820,364
Investment securities	-	-	49,191,657	-	49,191,657
Loans and advances to customers, net	-	-	-	163,282,230	163,282,230
Other assets	-	-	-	14,780,842	14,780,842
Total financial assets	3,897,593	408,072	49,191,657	209,610,729	263,108,051
Liabilities					
Due to banks	-	-	-	5,177,129	5,177,129
Derivative financial instruments	3,370,781	863,700	-	-	4,234,481
Deposits from customers	-	-	-	163,078,386	163,078,386
Euro commercial paper	-	-	-	2,909,845	2,909,845
Borrowings	-	-	-	40,555,195	40,555,195
Other liabilities	-	-	-	15,514,521	15,514,521
Total financial liabilities	3,370,781	863,700	-	227,235,076	231,469,557
2016					
Assets					
Cash and balances with central banks	-	-	-	19,261,902	19,261,902
Deposits and balances due from banks, net	-	-	-	24,663,615	24,663,615
Reverse-repo placements	-	-	-	1,524,806	1,524,806
Trading securities	418,758	-	-	-	418,758
Derivative financial instruments	3,540,804	430,985	-	-	3,971,789
Investment securities	-	-	33,059,466	-	33,059,466
Loans and advances to customers, net	-	-	-	158,457,695	158,457,695
Other assets	-	-	-	15,062,435	15,062,435
Total financial assets	3,959,562	430,985	33,059,466	218,970,453	256,420,466
Liabilities					
Due to banks	-	-	-	3,842,714	3,842,714
Derivative financial instruments	3,298,610	1,493,919	-	-	4,792,529
Deposits from customers	-	-	-	155,442,207	155,442,207
Euro commercial paper	-	-	-	8,728,533	8,728,533
Borrowings	-	-	-	38,015,030	38,015,030
Other liabilities	-	-	-	16,057,147	16,057,147
Total financial liabilities	3,298,610	1,493,919	-	222,085,631	226,878,160

41. Fair value hierarchy

Fair value measurements recognised in the statement of financial position

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions.

41. Fair value hierarchy (continued)**Fair value measurements recognised in the statement of financial position (continued)****Valuation techniques using observable inputs – Level 2**

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as swaps and forwards which are valued using market standard pricing techniques and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

The category includes derivative financial instruments such as OTC derivatives, commodity derivatives, foreign exchange spot and forward contracts, certain investment securities and borrowings.

These instruments are valued using the inputs observable in an active market. Valuation of the derivative financial instruments is made through discounted cash flow method using the applicable yield curve for the duration of the instruments for non-optional derivatives and standard option pricing models such as Black-Scholes and other valuation models for derivatives with options.

Valuation techniques using significant unobservable inputs – Level 3

Financial instruments and investment properties are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Financial instruments under this category mainly includes private equity instruments and funds. The carrying values of these investments are adjusted as follows:

- a) Private equity instruments – using the latest available net book value; and
- b) Funds – based on the net asset value provided by the fund manager.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Refer Note 13 in respect of valuation methodology used for investment properties.

41. Fair value hierarchy (continued)

Except as detailed in the following table, the Management considers that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements does not materially differ from their fair values.

		Level 1	Level 2	Level 3	Total fair value AED'000	Carrying value AED'000
		Quoted market prices AED'000	Observable inputs AED'000	Significant unobservable inputs AED'000		
2017	Notes					
Assets at fair value						
Trading securities	8	485,301	-	-	485,301	485,301
Derivative financial instruments	9	1,670	3,818,694	-	3,820,364	3,820,364
Investment securities	10					
- Quoted		35,669,196	2,278,940	-	37,948,136	37,948,136
- Unquoted		-	10,910,384	333,137	11,243,521	11,243,521
Investment properties	13	-	-	634,780	634,780	634,780
Total		36,156,167	17,008,018	967,917	54,132,102	54,132,102
Liabilities at fair value						
Derivative financial instruments	9	1,267	4,233,214	-	4,234,481	4,234,481
Liabilities at amortised cost						
Borrowings	20	16,707,322	23,176,117	-	39,883,439	40,555,195
Total		16,708,589	27,409,331	-	44,117,920	44,789,676
2016						
Assets at fair value						
Trading securities	8	418,758	-	-	418,758	418,758
Derivative financial instruments	9	10,612	3,961,177	-	3,971,789	3,971,789
Investment securities	10					
- Quoted		23,494,544	1,049,665	-	24,544,209	24,544,209
- Unquoted		-	8,178,003	337,254	8,515,257	8,515,257
Investment properties	13	-	-	659,776	659,776	659,776
Total		23,923,914	13,188,845	997,030	38,109,789	38,109,789
Liabilities at fair value						
Derivative financial instruments	9	1,290	4,791,239	-	4,792,529	4,792,529
Liabilities at amortised cost						
Borrowings	20	17,228,384	20,671,150	-	37,899,534	38,015,030
Total		17,229,674	25,462,389	-	42,692,063	42,807,559

The Group's OTC derivatives in the trading book are classified as Level 2 as they are valued using inputs that can be observed in the market.

Reconciliation showing the movement in fair values of Level 3 available-for-sale investments is as follows:

	2017 AED'000	2016 AED'000
Opening balance	337,254	413,621
Purchases, net	13,991	4,130
Disposals including capital refunds	(20,004)	(50,623)
Adjustment through comprehensive income	1,896	(29,874)
Closing balance	333,137	337,254

The purchases under Level 3 category represents capital contributions made during the year into private equity and funds under existing capital commitments.

Gain of AED 3,827 thousand was realised on disposal of Level 3 investments during the year (2016: AED 11,315 thousand).

There were no transfers between Level 1 and Level 2 available-for-sale investments during 2017 and there is no change in valuation techniques used during the year.

41. Fair value hierarchy (continued)

The significant unobservable inputs used in the fair value measurement of the Group's investment properties are rental income and capitalization rates. Significant decrease in rental income, or increase in capitalization rates, in isolation would result in a significant lower fair value measurement. Generally, a change in the assumption used for rental income should be accompanied by a change in the assumption for capitalization rates in the same direction as increase in rental income increases the expectations of the seller to earn from the investment property. Therefore, the effects of these changes partially offset each other.

Unconsolidated structured entity

Level 1 financial instruments include the Bank's investments in certain Funds. The total carrying value of investments in these Funds as at December 31, 2017 was AED 163,343 thousand (December 31, 2016 – AED 158,085 thousand). The Bank has also extended revocable overdraft facilities to these Funds amounting to AED 28,365 thousand (December 31, 2016 – AED 28,365 thousand), out of which AED 18 thousand was utilised and outstanding as at December 31, 2017 (December 31, 2016 - AED 1,188 thousand). The maximum exposure to loss in these Funds is equal to the carrying value of the investments and credit risk carried in the facilities extended.

42. Risk management

Risk governance structure emphasises and balances strong central oversight and control of risk with clear accountability for ownership of risk within each business unit. Under the Group's approach to risk governance, the business primarily owns the risk that it generates and is equally responsible for assessing risk, designing and implementing controls and monitoring and reporting their ongoing effectiveness to safeguard the Group from exceeding its risk appetite.

Ultimate responsibility for setting out risk appetite and effective management of risk rest with the Board. This is managed through various Board level committees; namely Board Risk & Credit Committee (BRCC) and Board Audit & Compliance Committee (BACC), which ensure that risk taking authority and policies are cascaded down from the Board to the appropriate business units.

Acting within the authority delegated by the Board, the BRCC has overall responsibility for oversight and review of credit, market, operational, liquidity, fraud and reputational risks. It periodically reviews and monitors compliance with the Group's overall risk appetite and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, overseeing the management risk committees and ensuring that the Group's risk governance is supportive of prudent risk taking at all levels in the Group.

The BRCC receives on a regular basis, portfolio level briefings from the Group Chief Risk Officer along with regular reports on risk management, including portfolio trends, policy parameters, key risk indicators, results of stress testing and changes to the assumptions, liquidity measures, capital adequacy and planning, and also is authorized to investigate or seek any information relating to any activity within its terms of reference. The BRCC also conducts 'deep dive' reviews on a rolling basis of different sections of the consolidated group risk information report.

The Management Executive Committee (MEC) has primary responsibility for implementing, overseeing and taking ownership for the enforcement of risk strategy and internal control directives laid down by the Board and Board committees.

The Management level committees also actively manage risk particularly the Assets and Liabilities Management Committee (ALCO), Management Risk & Credit Committee (MRCC) and Management Recoveries Committee (MRC). The Risk Management function headed by the Group's Chief Risk Officer reports independently to BRCC. The risk function is independent of the origination, trading and sales function to ensure balance in risk reward decision is not compromised and to ensure transparency of decisions in accordance with laid down standards and policies. The risk function exercises control over credit, market, liquidity, operational and compliance risk.

42. Risk management (continued)

BACC provides assistance to the Board to fulfill its duties to ensure and oversee the Group's financial statements, independence and performance of the Group's external and internal auditors, compliance with legal and regulatory requirements and internal policies and internal control over financial reporting.

The Internal Audit division (IAD) aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of the Group's risk management, control and governance processes. The IAD reports directly to BACC. The IAD consists of a team of auditors, whose tasks are, among other things, to evaluate the quality of the Group's lending portfolio, controls in operational processes and the integrity of the Group's information systems and databases. The IAD auditors, alongside the compliance department, also ensure that transactions undertaken by the Group are conducted in compliance with applicable legal and regulatory requirements and in accordance with the Group's internal procedures, thereby minimising the risk of fraudulent, improper or illegal practices.

43. Credit risk management

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation.

The Group's risk function follows the approaches listed below for credit risk management, depending on the type of customer.

Individual account management – These accounts are managed by a relationship manager and a credit manager. This category includes customers of wholesale banking, private accounts and financial institutions. Risk management is conducted through expert analysis backed by tools to support decision-making based on internal models of risk assessment.

Portfolio management – This category generally includes individuals, sole proprietorships and partnerships and certain smaller SME's. Management of these risks is based on internal models of assessment and score card based decisions complemented by internal portfolio analytics.

The Group controls credit risk by aggregating and monitoring credit exposures (both direct and indirect exposures) on the loans and advances, investment securities, non-funded exposures and due from banks. The Group sets transaction limits for specific counterparties and continually assesses the creditworthiness of counterparties. The Group sets and monitors limits for country, industry, product and tenor risks and uses its own internal rating models for assigning customer ratings which measures the degree of risk of a customer. Each rating corresponds to a certain probability of default. The Group has various internal rating models for different customer segments.

In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Group wide credit policies and standards are approved by BRCC. These govern all delegated lending authorities and include policies, standards, metrics, strategies and procedures specific to each of the different business segments and are decided based on the macro economic conditions, the risk appetite of the Group, market data and internal skill sets and capabilities. They are regularly reviewed and modified to ensure they stay current, relevant and protect the Group's interest in changing operating conditions. In addition to Group wide policies, there are underwriting standards set for each portfolio segment.

43. Credit risk management (continued)
43.1 Analysis of maximum exposure to credit risk

The following table presents the maximum exposure of credit risk for on and off-balance sheet financial instruments as at December 31, 2017 and 2016, after allowance for impairment and netting where appropriate and after taking into account any collateral held or other credit risk mitigants (CRMs).

The gross exposure to credit risk for on balance sheet items is their carrying value. For financial guarantees recorded off balance sheet, the gross exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees were to be called upon. For loans and other credit related commitments that are irrevocable over the life of the respective facilities, the gross exposure to credit risk is the full amount of the committed facilities.

The analysis of credit risk under this section includes only financial instruments subject to credit risk. Other financial assets such as trading portfolio which are exposed only to market risk have been excluded. Where financial instruments are recorded at fair value, the amounts shown below represent the current credit exposure but not the maximum risk exposure that could arise in the future as a result of changes in fair values.

	On-balance sheet AED'000	Off-balance sheet AED'000	Gross credit risk exposure AED'000	Gross CRM AED'000	Maximum credit risk exposure AED'000
2017					
Deposits and balances due from banks, net	11,451,956	-	11,451,956	-	11,451,956
Reverse-repo placements	98,578	-	98,578	98,578	-
Derivative financial instruments	3,820,364	-	3,820,364	3,004,769	815,595
Investment securities	49,191,657	-	49,191,657	-	48,694,687
Loans and advances to customers, net	163,282,230	40,962,008	204,244,238	120,500,517	83,743,721
Other assets	14,857,038	-	14,857,038	-	14,773,713
Total	242,701,823	40,962,008	283,663,831	123,603,864	159,479,672
2016					
Deposits and balances due from banks, net	24,663,615	-	24,663,615	-	24,663,615
Reverse-repo placements	1,524,806	-	1,524,806	1,524,806	-
Derivative financial instruments	3,971,789	-	3,971,789	2,512,087	1,459,702
Investment securities	33,059,466	2,695	33,062,161	-	32,566,301
Loans and advances to customers, net	158,457,695	47,378,497	205,836,192	118,272,602	87,563,590
Other assets	15,120,988	-	15,120,988	-	15,056,860
Total	236,798,359	47,381,192	284,179,551	122,309,495	161,310,068

43.2 Concentration of credit risk

Concentration of credit risk arises when a number of counterparties or exposures have comparable economic characteristics or such counterparties are engaged in similar activities or operate in the same geographical areas or economic sectors that would impact their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The analysis of credit risk concentrations presented below are based on the location of the counterparty or customer or the economic activity in which they are engaged.

43. Credit risk management (continued)
43.2 Concentration of credit risk (continued)
(a) Credit risk concentration by geographical sector

	Domestic (UAE) AED'000	Other GCC countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	USA AED'000	Rest of the world AED'000	Total AED'000
2017								
Assets								
Deposits and balances due from banks, net	3,270,999	1,132,077	207,249	2,721,914	2,809,119	71,102	1,239,496	11,451,956
Reverse-repo placements	48,443	-	-	16,725	33,410	-	-	98,578
Derivative financial instruments	1,821,819	13,857	-	7,104	1,869,295	-	108,289	3,820,364
Investment securities	25,559,492	6,323,138	322,659	8,406,907	3,123,326	4,108,612	850,553	48,694,687
Loans and advances to customers, net	153,398,807	4,237,042	883,704	2,753,692	291,857	-	1,717,128	163,282,230
Other assets	4,331,604	502,020	9,671	2,078,799	2,821,140	4,770,993	259,486	14,773,713
Total	188,431,164	12,208,134	1,423,283	15,985,141	10,948,147	8,950,707	4,174,952	242,121,528
Commitment and contingent liabilities	34,754,686	2,323,520	57,357	1,534,007	1,972,662	182,432	137,344	40,962,008
2016								
Assets								
Deposits and balances due from banks, net	10,086,945	10,494,538	187,030	1,183,529	827,613	313,746	1,570,214	24,663,615
Reverse-repo placements	-	-	-	-	1,524,806	-	-	1,524,806
Derivative financial instruments	1,980,575	6,168	-	62,261	1,805,504	-	117,281	3,971,789
Investment securities	20,873,426	3,789,096	527,924	4,679,056	1,603,317	474,907	615,880	32,563,606
Loans and advances to customers, net	149,546,974	3,569,807	94,017	3,379,068	421,511	801	1,445,517	158,457,695
Other assets	9,531,950	376,384	9,655	1,857,813	308,288	2,920,411	52,359	15,056,860
Total	192,019,870	18,235,993	818,626	11,161,727	6,491,039	3,709,865	3,801,251	236,238,371
Commitment and contingent liabilities	37,707,647	2,037,393	210,924	2,404,408	3,624,923	1,139,044	256,853	47,381,192

(b) Credit risk concentration by economic/industry sector

The economic activity sector composition of the loans and advances to customers is as follows:

	2017			2016		
	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000
Economic activity sector						
Agriculture	209,241	-	209,241	207,906	-	207,906
Energy	1,292,858	454,944	1,747,802	98,138	410,237	508,375
Trading	5,115,397	1,036,909	6,152,306	4,117,854	1,302,085	5,419,939
Real estate investment & hospitality	59,886,952	1,524,985	61,411,937	56,682,307	1,387,668	58,069,975
Transport	1,815,749	1,153,523	2,969,272	2,019,289	1,584,562	3,603,851
Personal	39,722,120	178,963	39,901,083	40,429,267	236,162	40,665,429
Government & public sector entities	34,362,873	255,388	34,618,261	35,138,681	990,422	36,129,103
Financial institutions (*)	10,468,012	3,576,142	14,044,154	10,205,802	2,639,883	12,845,685
Manufacturing	2,310,086	2,028,034	4,338,120	2,239,667	1,645,144	3,884,811
Services	2,810,682	263,441	3,074,123	2,084,554	230,353	2,314,907
Others	670,918	51,757	722,675	678,063	72,026	750,089
	158,664,888	10,524,086	169,188,974	153,901,528	10,498,542	164,400,070
Less: Allowance for impairment			(5,906,744)			(5,942,375)
Total loans and advances to customers, net			163,282,230			158,457,695

(*) includes investment companies

As at reporting date, the 20 largest customer loan exposures constitute 34.85% of the gross loans and advances to customers (December 31, 2016 – 35.38%).

43. Credit risk management (continued)
43.2 Concentration of credit risk (continued)
(b) Credit risk concentration by economic/industry sector (continued)

The industry sector composition of other exposures is as follows:

	Commercial and business AED'000	Personal AED'000	Public sector AED'000	Government AED'000	Banks and financial institutions AED'000	Total AED'000
2017						
Assets						
Deposits and balances due from banks, net	-	-	-	-	11,451,956	11,451,956
Reverse-repo placements	-	-	-	-	98,578	98,578
Derivative financial instruments	1,034,626	121,930	355,833	14,602	2,293,373	3,820,364
Investment securities	892,122	-	8,642,460	29,877,802	9,282,303	48,694,687
Other assets	8,983,358	330,248	109,477	183,803	5,166,827	14,773,713
Total	10,910,106	452,178	9,107,770	30,076,207	28,293,037	78,839,298
Commitment and contingent liabilities	26,955,350	2,320,455	4,240,746	1,375,117	6,070,340	40,962,008
2016						
Assets						
Deposits and balances due from banks, net	-	-	-	-	24,663,615	24,663,615
Reverse-repo placements	-	-	-	-	1,524,806	1,524,806
Derivative financial instruments	1,074,639	10,448	394,192	14,801	2,477,709	3,971,789
Investment securities	820,273	-	7,176,838	17,366,986	7,199,509	32,563,606
Other assets	11,356,547	314,820	612,320	195,217	2,577,956	15,056,860
Total	13,251,459	325,268	8,183,350	17,577,004	38,443,595	77,780,676
Commitment and contingent liabilities	29,547,460	4,594,988	3,003,226	1,156,399	9,079,119	47,381,192

43.3 Credit risk management overview
Organisational Framework

The risk management structure of the Group is clearly established with well defined roles and responsibilities as explained in Note 42.

The committees responsible for managing credit risk are MRCC and MRC. The Group risk management practices and strategies are an integral part of business planning and budgeting process. All risk management areas are centralised under the Credit and Risk division.

BRCC is responsible for approving high value credits and is responsible for the approval of credit policies and processes in line with growth, risk management and strategic objectives. In addition, the Group manages the credit exposure by obtaining collaterals where appropriate and limiting the duration of exposure. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Regular audits of business units and the Group's credit processes are undertaken by the Internal Audit and Compliance divisions.

43. Credit risk management (continued)**43.4 Credit risk measurement and mitigation policies**

Loans and advances to customers is the main source of credit risk although the Group can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. The Group's risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite and to monitor the risks and adherence to limits by means of reliable and timely data. The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties (Note 43.5).

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate.

Collateral

The Group holds collateral against various credit risk exposures in the form of mortgage interests over property, other registered securities over assets, fixed deposits and guarantees. Estimates of fair value of the collateral (including shares) are updated on a regular basis. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The principal collateral types for loans and advances are:

- Cash and marketable securities;
- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities; and
- Guarantees.

The estimated fair value of collateral and other security enhancements held against various credit risk exposures for the year ended December 31, 2017 was AED 183,993,759 thousand (December 31, 2016 - AED 164,856,273 thousand).

Collateral held as security against impaired loans primarily relates to commercial and residential properties and securities. Where the estimated fair value of collateral held exceeds the outstanding loan, any excess on realisation is paid back to the customers and is not available for offset against other loans.

Derivatives

The Group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. positive fair value of assets), which in relation to derivatives is a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers together with potential exposures from market movements.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from the Group's market transactions on any single day.

43. Credit risk management (continued)**43.4 Credit risk measurement and mitigation policies** (continued)**Master netting arrangements**

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis, hence the impact of netting in practice is immaterial.

However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a year, as it is affected by each transaction subject to the arrangement.

43.5 Portfolio monitoring and identifying credit risk

Credit Risk Management division is actively involved in identifying and monitoring credit risk on loans. It monitors the portfolio through system generated MIS data analysis and periodic reviews giving due consideration to industry/general economic trends, market feedback and media reports.

Within the retail portfolios comprising of homogeneous assets, statistical techniques are deployed to monitor potential weaknesses within a particular portfolio. The approach is consistent with the Group's policy of raising a specific impairment allowance as soon as objective evidence of impairment is identified. Retail accounts are classified according to specified categories of arrears status (days past due buckets), which reflects the level of contractual payments which are overdue on a loan.

The probability of default increases with the number of contractual payments missed, thus raising the associated impairment requirement. In the event, where a decision is taken to write off a loan, the account is moved to legal recovery function. However, in certain cases, an account may be charged off directly from a performing status, such as in the case of insolvency or death.

Exposure to credit risk by days past due

The Group's risk classification of loans and advances which is in adherence with the recommendations of Central Bank of the United Arab Emirates guidelines is as follows:

Risk Category

Neither past due nor impaired

Past due but not impaired

Past due and impaired

Up to 30 days past dueBetween 31 and 90 days past dueOver 91 days past due

43. Credit risk management (continued)

43.5 Portfolio monitoring and identifying credit risk (continued)

Exposure to credit risk by days past due (continued)

The classification of loans and advances to customers by days past due are as follows:

	2017 AED'000	2016 AED'000
Neither past due nor impaired	159,477,889	156,862,836
Past due but not impaired	6,019,261	2,937,273
Past due and impaired	3,691,824	4,599,961
	169,188,974	164,400,070
Less: Allowance for impairment	(5,906,744)	(5,942,375)
Loans and advances to customers, net	163,282,230	158,457,695

Analysis of the age of past due but not impaired loans as at the end of the reporting period is as follows:

	2017 AED'000	2016 AED'000
31 – 60 days	4,182,482	2,168,307
More than 60 days	1,836,779	768,966
Total past due but not impaired loans	6,019,261	2,937,273

Exposure to credit risk by internal risk grades

The Group uses an internal grading system which employs ten grades that categorise the Group's wholesale and high net worth (HNW) customers based on various qualitative and quantitative factors such as borrower financial strength, industry risk factors, management quality, operational efficiency, company standing, liquidity, capital structure, peer group analysis, etc. Some of these grades are further sub-classified with a plus or a minus sign. Lower grades are indicative of a lower likelihood of default. Credit grades 1-7 are assigned to performing customers or accounts while credit grades 8 – 10 are assigned to non-performing or defaulting customers.

Credit ratings are used by the Group to decide the maximum lending amount per customer group and also to set minimum pricing thresholds. Retail customers or individual borrowers are not assigned a credit rating under this structure. However, retail banking division uses behaviour scoring for its customers.

The internal credit grade system is not intended to replicate external credit grades but factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a higher internal credit grade.

The following table represents credit quality of loans and advances to customers, net that are neither past due nor impaired and derivative financial assets as at December 31:

	2017		2016	
	Loans and advances to customers, net AED'000	Derivative financial assets AED'000	Loans and advances to customers, net AED'000	Derivative financial assets AED'000
Internal risk grades				
Grades 1 to 4	65,577,379	3,691,202	69,786,621	3,884,351
Grades 5 to 6	50,572,143	126,008	43,787,697	87,326
Grade 7	8,392,423	53	8,765,784	112
Ungraded – including retail loans	34,935,944	3,101	34,522,734	-
	159,477,889	3,820,364	156,862,836	3,971,789

43. Credit risk management (continued)
43.5 Portfolio monitoring and identifying credit risk (continued)
External credit ratings

The table below presents the external credit ratings as at December 31 of the Group's deposits and balances due from banks, gross, reverse-repo placements and available-for-sale bond securities based on Standard & Poor's rating scale. Bond issuer level ratings are used in case ratings are not available at issuance level. Wherever Standard & Poor's ratings are not available, comparable Fitch or Moody's equivalent ratings scale is used.

Ratings	2017			2016		
	Deposits and balances due from banks, gross AED'000	Reverse-repo placements AED'000	Available-for-sale bonds AED'000	Deposits and balances due from banks, gross AED'000	Reverse-repo placements AED'000	Available-for-sale bonds AED'000
AAA to AA-	286,811	10,868	12,549,650	1,984,049	-	6,941,123
A+ to A-	4,629,023	70,985	10,618,728	17,230,632	1,524,806	6,194,170
BBB+ to BBB-	2,505,973	-	8,316,647	3,252,390	-	6,779,436
BB+ to B-	3,323,504	-	3,870,193	1,907,404	-	2,558,913
CCC+ to C-	-	-	324,442	-	-	-
UAE Sovereigns	-	-	12,719,303	-	-	9,863,410
Unrated	833,891	16,725	295,724	392,509	-	226,554
	11,579,202	98,578	48,694,687	24,766,984	1,524,806	32,563,606

UAE Sovereigns and unrated available-for-sale bond securities internal ratings with comparable external ratings are as follows:

	Internal Rating	External Rating	2017 AED'000	2016 AED'000
UAE Sovereigns	Grade 2 to 3	AA to A	12,719,303	9,863,410
Unrated	Grade 2 to 5	AA- to BB+	295,724	226,554
			13,015,027	10,089,964

43.6 Identification of impairment

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

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

The Group considers evidence of impairment for loans and advances and investment securities measured at amortised cost at both individual and collective level.

Individually assessed loans and advances

Impairment losses for individually assessed loans are determined by an evaluation of objective evidence relating to each exposure on a case-by-case basis. This procedure is applied to all classified loans and advances to corporate, commercial, high net worth individual and banks which are individually significant accounts or are not subject to a portfolio-based-approach. Specific factors considered by management when determining allowance for impairment on significant individual loans and advances includes the Group's aggregate exposure to the customer, 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, likely dividend available on liquidation or bankruptcy, extent of other creditors' commitments ranking ahead of or pari passu with the Group, likelihood of other creditors continuing to support the customers, realisable value of security (or other credit mitigants) and likelihood of successful repossession and likely deduction of any costs involved in recovery of amounts outstanding.

43. Credit risk management (continued)**43.6 Identification of impairment** (continued)**Individually assessed loans and advances** (continued)

The amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows excluding future credit losses but including amounts recoverable from guarantees and collateral, discounted at the loan's original effective interest rate, when it became delinquent under the contract. The amount of the loss is recognised using an allowance account and is included in the consolidated income statement line - impairment allowances.

The Group's policy requires regular review of the level of impairment allowances on individual facilities, regular valuation of the collateral and consideration of its enforceability. Impaired loans continue to be classified as impaired unless they are fully current and the collection of scheduled interest and principal is considered probable.

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

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

Incurred but not yet identified loss on individual 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 based on industry, product or loan rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group may have incurred as a result of events occurring before the reporting date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual loans within the group of the customer, those loans are excluded from collective impairment assessment and assessed on an individual basis. The management of the Group assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the reporting date.

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

The collective impairment allowance is determined after taking into account factors such as historical loss experience in portfolios of similar credit risk characteristics, past restructurings, estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against individual loans and management's judgement based on experience as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting 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.

43. Credit risk management (continued)

43.6 Identification of impairment (continued)

Collectively assessed loans and advances (continued)

Homogenous groups of loans and advances

Statistical methods are used to determine impairment losses on a collective basis for homogenous groups of loans that are not considered individually significant, because individual loan assessment is impracticable. Losses in these groups of loans are recorded on individual basis when individual loans are written off, at which point they are removed from the group.

Impairment of retail loans is calculated by applying a formula approach which allocates progressively higher loss rates in line with the overdue installment date.

All unsecured retail loans falling under similar overdue categories are assumed to carry similar credit risk and an allowance for impairment is taken on a portfolio basis. In cases of secured loans where the Group possesses collateral (mortgage) the realisable value of the collateral is taken into consideration in assessing the allowance for impairment.

Write-off of loans and advances

Loan and advances (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realizing the security have been received. All retail loans (except mortgages) are written off at 181 days past due based on approved write off policies. However, recovery efforts continue on these loans.

The movement in individual and collective impairment allowance on loans and advances is as follows:

	2017			2016		
	Individual impairment AED'000	Collective impairment AED'000	Total AED'000	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
Opening balance	2,851,323	3,194,421	6,045,744	3,375,998	2,968,889	6,344,887
Charge for the year	1,952,033	(22,764)	1,929,269	1,464,214	225,699	1,689,913
Recoveries during the year	(258,906)	-	(258,906)	(137,597)	-	(137,597)
Net charge for the year	1,693,127	(22,764)	1,670,363	1,326,617	225,699	1,552,316
Discount unwind	(51,515)	-	(51,515)	(64,359)	-	(64,359)
Net amounts written-off	(1,631,744)	-	(1,631,744)	(1,786,884)	-	(1,786,884)
Currency translation	757	385	1,142	(49)	(167)	(216)
Closing balance	2,861,948	3,172,042	6,033,990	2,851,323	3,194,421	6,045,744

Allocation of impairment allowance on loans and advances to customers and banks is as follows:

	2017			2016		
	Individual impairment AED'000	Collective impairment AED'000	Total AED'000	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
Loans and advances to customers (Note 11)	2,861,948	3,044,796	5,906,744	2,851,323	3,091,052	5,942,375
Loans and advances to banks (Note 6)	-	127,246	127,246	-	103,369	103,369
Total impairment allowance on loans and advances	2,861,948	3,172,042	6,033,990	2,851,323	3,194,421	6,045,744

43. Credit risk management (continued)**43.6 Identification of impairment (continued)****Reversal 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 consolidated income statement in the period in which it occurs.

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 favourable to the Group. The Group enters into derivative contracts with financial institutions and corporates which are of satisfactory credit standing as per the Group's independent credit assessment. Credit risk in derivatives is mitigated through limit control and master netting agreements as explained in Note 43.4.

Off-balance sheet

The Group applies the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

43.7 Renegotiated loans

The contractual terms of a loan may be modified for a number of reasons, and not limited to credit deterioration of the customer. When determining whether a renegotiated loan should be derecognised and a new loan to be recognised, the Group performs a quantitative and qualitative evaluation of whether the changes to the original contractual terms result in a substantially different financial instrument, in which case an existing loan is derecognised and the renegotiated loan is recognised at fair value. For loans under credit deterioration, irrespective of whether the loan is derecognised on renegotiation, it remains disclosed at same risk grade until there is sufficient evidence of improvement.

44. Interest rate risk framework, measurement and monitoring

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Group's Treasury division, which uses derivative instruments like interest rate swaps and cross currency interest rate swaps to manage the overall interest rate risk arising from the Group's interest bearing financial instruments.

Financial assets and liabilities exposed to interest rate risk are financial assets and financial liabilities with either a fixed or a floating contractual rate of interest. A significant portion of the Group's loans and advances, deposits and balances due from banks, investment securities, deposits from customers, due to banks, and borrowings fall under this category.

Financial assets that are not subject to any interest rate risk mainly comprise of investments in equity investments, cash and balances with central banks excluding certificate of deposits and reverse repo.

The off-balance sheet gap represents the net notional amounts of the off-balance sheet financial instruments, such as interest rate and cross currency interest rate swaps which are used to manage interest rate risk.

The Group uses financial simulation tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by the Asset and Liability Committee (ALCO).

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44. Interest rate risk framework, measurement and monitoring (continued)

The Group's interest rate sensitivity position based on contractual repricing arrangements as at December 31, 2017 is as follows. Derivative financial instruments (other than those designated in a hedge relationship) and trading book assets and liabilities (excluding non-interest bearing) are included in the 'less than 3 months' column at their fair value. Derivative financial instruments designated in a hedge relationship are included according to their contractual next re-pricing tenor.

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks	3,673,000	-	-	-	-	16,324,123	19,997,123
Deposits and balances due from banks, net	7,744,376	1,784,126	350,100	-	-	1,573,354	11,451,956
Reverse-repo placements	98,578	-	-	-	-	-	98,578
Trading securities	485,301	-	-	-	-	-	485,301
Derivative financial instruments	2,961,434	1,473	2,953	-	-	854,504	3,820,364
Investment securities	20,035,832	837,256	1,651,808	8,368,946	17,800,845	496,970	49,191,657
Loans and advances to customers, net	101,861,079	26,373,213	1,092,483	11,503,929	29,134,733	(6,683,207)	163,282,230
Investment in associate	-	-	-	-	-	205,372	205,372
Investment properties	-	-	-	-	-	634,780	634,780
Other assets	7,236	-	-	-	-	14,849,802	14,857,038
Property and equipment, net	-	-	-	-	-	960,096	960,096
Intangible assets	-	-	-	-	-	18,800	18,800
Total assets	136,866,836	28,996,068	3,097,344	19,872,875	46,935,578	29,234,594	265,003,295
Liabilities and equity							
Due to banks	3,675,040	457,433	222,535	-	-	822,121	5,177,129
Derivative financial instruments	3,496,786	83,875	145	-	-	653,675	4,234,481
Deposits from customers	76,036,337	15,624,421	22,213,152	6,962,243	135,077	42,107,156	163,078,386
Euro commercial paper	1,027,214	815,129	1,067,502	-	-	-	2,909,845
Borrowings	16,282,111	286,410	28,575	9,146,431	14,811,668	-	40,555,195
Other liabilities	77,823	-	-	-	-	16,525,496	16,603,319
Equity	-	-	-	-	-	32,444,940	32,444,940
Total liabilities and equity	100,595,311	17,267,268	23,531,909	16,108,674	14,946,745	92,553,388	265,003,295
On-balance sheet gap	36,271,525	11,728,800	(20,434,565)	3,764,201	31,988,833	(63,318,794)	-
Off-balance sheet gap	(16,530,741)	1,824,346	(572,813)	7,257,444	8,021,764	-	-
Total interest rate sensitivity gap	19,740,784	13,553,146	(21,007,378)	11,021,645	40,010,597	(63,318,794)	-
Cumulative interest rate sensitivity gap	19,740,784	33,293,930	12,286,552	23,308,197	63,318,794	-	-

Non-interest bearing items under loans and advances to customers, net include mainly loan loss provisions.

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44. Interest rate risk framework, measurement and monitoring (continued)

The Group's interest rate sensitivity position based on contractual repricing arrangements as at December 31, 2016 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks	5,106,613	-	-	-	-	14,155,289	19,261,902
Deposits and balances due from banks, net	23,456,909	582,296	1,059	-	-	623,351	24,663,615
Reverse-repo placements	1,524,806	-	-	-	-	-	1,524,806
Trading securities	418,758	-	-	-	-	-	418,758
Derivative financial instruments	3,035,420	27,556	1,291	-	-	907,522	3,971,789
Investment securities	11,136,292	1,115,803	1,877,216	5,570,319	12,863,976	495,860	33,059,466
Loans and advances to customers, net	102,808,107	21,978,078	983,007	10,263,812	29,265,091	(6,840,400)	158,457,695
Investment in associate	-	-	-	-	-	204,977	204,977
Investment properties	-	-	-	-	-	659,776	659,776
Other assets	80,218	-	-	-	-	15,040,770	15,120,988
Property and equipment, net	-	-	-	-	-	926,685	926,685
Intangible assets	-	-	-	-	-	18,800	18,800
Total assets	147,567,123	23,703,733	2,862,573	15,834,131	42,129,067	26,192,630	258,289,257
Liabilities and equity							
Due to banks	2,924,638	280,000	370,623	-	-	267,453	3,842,714
Derivative financial instruments	3,797,437	1,781	-	-	-	993,311	4,792,529
Deposits from customers	72,031,911	18,245,571	12,408,630	4,010,122	5,823,325	42,922,648	155,442,207
Euro commercial paper	4,194,486	2,583,440	1,950,607	-	-	-	8,728,533
Borrowings	14,624,830	2,408,763	1,807,246	8,757,859	10,416,332	-	38,015,030
Other liabilities	31,677	-	-	-	-	17,085,682	17,117,359
Equity	-	-	-	-	-	30,350,885	30,350,885
Total liabilities and equity	97,604,979	23,519,555	16,537,106	12,767,981	16,239,657	91,619,979	258,289,257
On-balance sheet gap	49,962,144	184,178	(13,674,533)	3,066,150	25,889,410	(65,427,349)	-
Off-balance sheet gap	(4,800,276)	(5,202,216)	(317,368)	6,154,031	4,165,829	-	-
Total interest rate sensitivity gap	45,161,868	(5,018,038)	(13,991,901)	9,220,181	30,055,239	(65,427,349)	-
Cumulative interest rate sensitivity gap	45,161,868	40,143,830	26,151,929	35,372,110	65,427,349	-	-

Non-interest bearing items under loans and advances to customers, net include mainly loan loss provisions.

45. Liquidity risk framework, measurement and monitoring

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replenish funds when they are withdrawn. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk management process

The Group has Board of Directors (BOD) approved liquidity risk appetite framework which establishes the minimum liquidity to be carried by the Group in order to survive a stress environment for a stipulated time horizon. The BOD has delegated to Management Executive Committee (MEC) the responsibility of liquidity management which is overseen on their behalf by the Asset Liability Committee (ALCO) on a day to day basis. ALCO sets and monitors liquidity ratios and regularly revises and calibrates the liquidity management policies to ensure that the Group is in a position to meet its obligations as they fall due. ALCO also ensures that the bank remains compliant with all regulatory and internal policy guidelines pertaining to liquidity risk.

The Group's liquidity management process, as carried out within the Group and monitored by the Group's Treasury division includes:

- Monitoring of liquidity position on a daily, weekly and monthly basis. This entails forecasting of future cash inflows/outflows and ensuring that the Group can meet the required outflows;
- Conducting regularly liquidity stress testing of the Group's liquidity position under a variety of scenarios covering both normal and more severe market conditions with well defined triggers and suggested actions;
- Ensuring regular compliance with the liquidity ratios such as Advances to Stable Resources (ADR) ratio, Eligible Liquid Assets ratio (ELAR) and Liquidity Coverage ratio (LCR) stipulated by the Central Bank of the UAE and internally approved management triggers for liquidity risk;
- Monitoring Basel-III based NSFR liquidity risk ratio as a measure of long term liquidity stress and maintaining the ratio above the management approved threshold; and
- Conducting regular enterprise wide liquidity stress test which estimates liquidity requirements under idiosyncratic and systemic stress conditions. The enterprise wide stress test incorporates diverse liquidity triggers like currency de-peg, failure of a major local bank, credit rating downgrades in addition to regular stress cash flow analysis.

The Group has set an internal ceiling on the ADR ratio that should not be higher than 1:1 between:

- the amount of loans and advances together with the amount of inter-bank placements with a remaining life of more than three months; and
- the amount of stable resource comprising of free own funds with a remaining life of more than six months, stable customer deposits and standby liquidity facilities.

The above is in line with the definition of Advances to Stable Resources ratio as prescribed by the Central Bank of the UAE.

Monitoring composition of funding sources at a granular level has set triggers for avoiding concentration of funding sources. The concentration of funding sources is monitored as percentage of the total liability position. Some of the ratios monitored are as follows:

- Euro commercial paper to total liabilities
- Wholesale funds to total liabilities
- Money market deposits to total liabilities
- Core funds to total liabilities
- Non-core funds to total liabilities
- Offshore funds to total liabilities

45. Liquidity risk framework, measurement and monitoring (continued)**Liquidity risk management process** (continued)

The Group has established several early warning indicators for liquidity risk in line with the Central Bank of the UAE requirements and monitors them regularly. Some of the key early warning indicators are as follows:

- Credit rating downgrade
- Decline in stock price
- Widening credit-default-swap levels
- Rising retail/wholesale funding costs
- Increased collateral calls

The Group has also established a breach management and escalation process with clear definition of roles and responsibilities.

Tools for liquidity management

The Group through its Treasury division ensures that it has access to diverse sources of funding ranging from local customer deposits from its retail, corporate and institutional customers as well as international sovereign wealth funds and central banks to long term funding such as debt securities and subordinated liabilities issued under the global medium term note program.

Whilst the Group's debt securities and sub-debt typically are issued with maturities of greater than one year, deposits from banks and customers generally have shorter maturities which increase the liquidity risk of the Group. The Group's Treasury division manages this risk by:

- Diversification of funding sources and balancing between long term and short term funding sources through borrowing under its global medium term notes issue programs;
- Monitoring the stickiness of liability portfolio and rewarding business units for sticky deposits through the fund transfer pricing process; and
- Investing in various short-term or medium term but highly marketable assets in line with Basel-III guidelines for High Quality Liquid Assets (HQLA) such as certificate of deposit with Central Bank, investment grade bonds that can be repurchased at short notices, etc.

Further, the Bank also has the following facilities from the Central Bank of the UAE to manage its liquidity risk during critical times:

- Overdraft facility against its cash reserves at overnight rate at a spread of 150 basis points;
- Overdraft facility beyond the cash reserves at overnight spread of 300 basis points; and
- Repo facility against CDs at overnight rate with a spread of 175 basis points.

The Bank has access to Marginal Lending Facility (MLF) initiated by the Central Bank of the UAE effective from March 2014. Under MLF, Bank can borrow from UAE Central Bank by posting eligible collateral. The Bank periodically tests MLF facility with the Central Bank for its operational readiness.

None of the above Central Bank facilities were utilised and outstanding at the end of the year.

The Bank has in place a contingent funding plan which lists out the trigger points to be monitored for invoking the contingent funding plan. The trigger points are based on market observable data points like credit spreads and internal and external events like decline in customer deposits and drying up of wholesale markets. The contingent funding plan clearly defines the roles and responsibilities and is updated with changing market conditions by ALCO.

45. Liquidity risk framework, measurement and monitoring (continued)

The table below summarizes the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the end of the reporting period date to the contractual maturity date and do not take into account the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds.

Derivative financial instruments (other than those designated in a hedge relationship) and trading portfolio assets and liabilities are included in 'less than 3 months' at their fair value. Liquidity risk on these items is not managed on the basis of remaining maturity since they are not held for settlement according to such maturity and will frequently be settled before remaining maturity at fair value. Derivatives designated in a hedge relationship are included according to their remaining maturity at fair value. Investment securities in equities and mutual funds with no maturity are included in 'over 3 years'.

The maturity profile is monitored by management to ensure adequate liquidity is maintained.

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45. Liquidity risk framework, measurement and monitoring (continued)

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

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	19,997,123	-	-	-	-	19,997,123
Deposits and balances due from banks, net	7,230,538	1,839,367	825,418	1,395,361	161,272	11,451,956
Reverse-repo placements	98,578	-	-	-	-	98,578
Trading securities	485,301	-	-	-	-	485,301
Derivative financial instruments	3,451,483	43,027	40,442	111,484	173,928	3,820,364
Investment securities	7,747,979	1,563,484	1,962,811	19,584,504	18,332,879	49,191,657
Loans and advances to customers, net	20,037,294	4,846,870	2,389,396	25,830,435	110,178,235	163,282,230
Investment in associate	-	-	-	-	205,372	205,372
Investment properties	-	-	-	634,780	-	634,780
Other assets	7,567,394	3,376,744	3,816,335	78,129	18,436	14,857,038
Property and equipment, net	-	-	-	-	960,096	960,096
Intangible assets	-	-	-	-	18,800	18,800
Total assets	66,615,690	11,669,492	9,034,402	47,634,693	130,049,018	265,003,295
Liabilities and equity						
Due to banks	4,497,161	457,433	222,535	-	-	5,177,129
Derivative financial instruments	3,405,796	79,678	4,996	289,805	454,206	4,234,481
Deposits from customers	117,733,564	15,628,841	22,221,379	6,962,243	532,359	163,078,386
Euro commercial paper	1,027,214	815,129	1,067,502	-	-	2,909,845
Borrowings	5,012,959	818,677	1,468,738	17,664,314	15,590,507	40,555,195
Other liabilities	9,339,985	3,010,650	3,798,818	-	453,866	16,603,319
Equity	-	-	-	-	32,444,940	32,444,940
Total liabilities and equity	141,016,679	20,810,408	28,783,968	24,916,362	49,475,878	265,003,295
Balance sheet liquidity gap	(74,400,989)	(9,140,916)	(19,749,566)	22,718,331	80,573,140	-
Off balance sheet						
Financial guarantees and irrevocable commitments	1,239,909	1,549,256	846,554	4,916,608	5,582,306	14,134,633

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45. Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities as at December 31, 2016 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	19,261,902	-	-	-	-	19,261,902
Deposits and balances due from banks, net	21,694,052	494,560	1,179,112	1,117,394	178,497	24,663,615
Reverse-repo placements	1,524,806	-	-	-	-	1,524,806
Trading securities	418,758	-	-	-	-	418,758
Derivative financial instruments	3,577,372	6,711	23,842	107,728	256,136	3,971,789
Investment securities	2,559,515	1,115,803	1,919,397	8,594,384	18,870,367	33,059,466
Loans and advances to customers, net	17,701,538	2,519,066	2,810,152	21,344,744	114,082,195	158,457,695
Investment in associate	-	-	-	-	204,977	204,977
Investment properties	-	-	-	659,776	-	659,776
Other assets	8,586,173	6,220,217	201,466	113,132	-	15,120,988
Property and equipment, net	-	-	-	-	926,685	926,685
Intangible assets	-	-	-	-	18,800	18,800
Total assets	75,324,116	10,356,357	6,133,969	31,937,158	134,537,657	258,289,257
Liabilities and equity						
Due to banks	3,192,091	280,000	370,623	-	-	3,842,714
Derivative financial instruments	3,375,505	273,986	306,268	286,344	550,426	4,792,529
Deposits from customers	114,534,445	18,250,019	12,412,350	4,010,122	6,235,271	155,442,207
Euro commercial paper	4,194,486	2,583,440	1,950,607	-	-	8,728,533
Borrowings	3,310,229	3,938,361	4,437,595	15,333,496	10,995,349	38,015,030
Other liabilities	10,453,470	5,944,548	184,933	113,132	421,276	17,117,359
Equity	-	-	-	-	30,350,885	30,350,885
Total liabilities and equity	139,060,226	31,270,354	19,662,376	19,743,094	48,553,207	258,289,257
Balance sheet liquidity gap	(63,736,110)	(20,913,997)	(13,528,407)	12,194,064	85,984,450	-
Off balance sheet						
Financial guarantees and irrevocable commitments	1,986,474	2,073,031	1,502,320	6,876,685	3,145,407	15,583,917

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45. Liquidity risk framework, measurement and monitoring (continued)

The table below summarizes the maturity profile of the Group's financial liabilities as at December 31, 2017 and 2016 based on contractual undiscounted repayment obligations. As interest payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. Derivative financial instruments held for trading are included in "less than 3 months" column at their fair value. 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.

	Carrying Amount AED'000	Gross outflow AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
2017							
Liabilities							
Due to banks	5,177,129	5,200,218	4,504,333	466,231	229,654	-	-
Derivative financial instruments	4,234,481	3,450,014	3,220,854	148,831	(108,720)	16,438	172,611
Deposits from customers	163,078,386	165,019,265	118,627,024	15,753,960	22,723,354	7,361,768	553,159
Euro commercial paper	2,909,845	2,917,572	1,028,726	816,437	1,072,409	-	-
Borrowings	40,555,195	67,949,072	5,339,338	961,085	1,847,674	18,708,939	41,092,036
Total financial liabilities	215,955,036	244,536,141	132,720,275	18,146,544	25,764,371	26,087,145	41,817,806
2016							
Due to banks	3,842,714	3,859,662	3,200,015	282,557	377,090	-	-
Derivative financial instruments	4,792,529	3,873,255	3,345,536	360,939	227,028	251,144	(311,392)
Deposits from customers	155,442,207	157,460,668	115,369,820	18,383,402	12,649,285	4,211,579	6,846,582
Euro commercial paper	8,728,533	8,756,624	4,198,566	2,590,704	1,967,354	-	-
Borrowings	38,015,030	47,910,490	3,570,904	4,110,051	4,687,354	16,641,356	18,900,825
Total financial liabilities	210,821,013	221,860,699	129,684,841	25,727,653	19,908,111	21,104,079	25,436,015

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46. Foreign exchange risk framework, measurement and monitoring

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored on a daily basis. The sensitivity of currency fluctuation risk is given in Note 47. The off balance sheet position represents the nominal value of foreign currency swaps, options currency etc. and outstanding under the Group's trading and hedging portfolio at reporting date. The analysis of currency concentrations of the Group's statement of financial position are presented below:

2017	AED AED'000	USD AED'000	EUR AED'000	CHF AED'000	GBP AED'000	Others AED'000	Total AED'000
Assets							
Cash and balances with central banks	14,504,751	5,445,259	142	-	-	46,971	19,997,123
Deposits and balances due from banks, net	2,063,438	7,436,761	1,612,669	42,877	30,410	265,801	11,451,956
Reverse-repo placements	-	98,578	-	-	-	-	98,578
Trading securities	-	485,301	-	-	-	-	485,301
Derivative financial instruments	1,150,191	2,540,359	1,661	-	-	128,153	3,820,364
Investment securities	259,782	41,220,069	5,817,192	-	-	1,894,614	49,191,657
Loans and advances to customers, net	139,715,293	22,771,460	68,667	-	7	726,803	163,282,230
Investment in associate	205,372	-	-	-	-	-	205,372
Investment properties	634,780	-	-	-	-	-	634,780
Other assets	1,545,289	13,052,772	115,870	4,780	5,282	133,045	14,857,038
Property and equipment, net	954,711	-	-	-	-	5,385	960,096
Intangible assets	18,800	-	-	-	-	-	18,800
Total assets	161,052,407	93,050,559	7,616,201	47,657	35,699	3,200,772	265,003,295
Liabilities and equity							
Due to banks	1,597,936	3,355,215	47,094	-	5,963	170,921	5,177,129
Derivative financial instruments	1,581,096	2,534,631	401	-	25	118,328	4,234,481
Deposits from customers	102,099,129	45,936,179	1,503,256	34,570	737,664	12,767,588	163,078,386
Euro commercial paper	-	1,159,843	1,279,166	-	470,836	-	2,909,845
Borrowings	-	36,151,149	317,227	680,745	-	3,406,074	40,555,195
Other liabilities	4,761,740	11,747,428	38,651	4,941	-	50,559	16,603,319
Equity	32,243,751	201,189	-	-	-	-	32,444,940
Total liabilities and equity	142,283,652	101,085,634	3,185,795	720,256	1,214,488	16,513,470	265,003,295
Net balance sheet position	18,768,755	(8,035,075)	4,430,406	(672,599)	(1,178,789)	(13,312,698)	-
Net off balance sheet position	1,798,008	(1,809,604)	(6,637,655)	698,926	990,099	4,960,226	-
Net FX open position	20,566,763	(9,844,679)	(2,207,249)	26,327	(188,690)	(8,352,472)	-

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46. Foreign exchange risk framework, measurement and monitoring (continued)

2016	AED AED'000	USD AED'000	EUR AED'000	CHF AED'000	GBP AED'000	Others AED'000	Total AED'000
Assets							
Cash and balances with central banks	12,442,019	6,664,063	-	-	-	155,820	19,261,902
Deposits and balances due from banks, net	1,800,481	19,484,771	485,547	12,304	540,549	2,339,963	24,663,615
Reverse-repo placements	-	1,524,806	-	-	-	-	1,524,806
Trading securities	-	418,758	-	-	-	-	418,758
Derivative financial instruments	1,256,420	2,650,981	365	-	244	63,779	3,971,789
Investment securities	243,784	28,807,910	3,083,936	99,359	-	824,477	33,059,466
Loans and advances to customers, net	137,642,396	19,814,901	43,023	1	7	957,367	158,457,695
Investment in associate	204,977	-	-	-	-	-	204,977
Investment properties	659,776	-	-	-	-	-	659,776
Other assets	1,304,183	13,527,265	101,431	6,622	10,988	170,499	15,120,988
Property and equipment, net	921,977	-	-	-	-	4,708	926,685
Intangible assets	18,800	-	-	-	-	-	18,800
Total assets	156,494,813	92,893,455	3,714,302	118,286	551,788	4,516,613	258,289,257
Liabilities and equity							
Due to banks	1,611,120	2,199,155	-	-	8	32,431	3,842,714
Derivative financial instruments	1,850,394	2,886,563	1,194	-	-	54,378	4,792,529
Deposits from customers	90,539,715	54,348,820	3,078,875	41,765	939,653	6,493,379	155,442,207
Euro commercial paper	-	5,972,681	1,309,526	-	1,446,326	-	8,728,533
Borrowings	500,358	32,469,415	473,974	1,037,924	898,422	2,634,937	38,015,030
Other liabilities	4,213,737	12,617,699	71,343	4,913	461	209,206	17,117,359
Equity	31,055,648	(704,763)	-	-	-	-	30,350,885
Total liabilities and equity	129,770,972	109,789,570	4,934,912	1,084,602	3,284,870	9,424,331	258,289,257
Net balance sheet position	26,723,841	(16,896,115)	(1,220,610)	(966,316)	(2,733,082)	(4,907,718)	-
Net off balance sheet position	980,821	(11,876,456)	102,050	962,821	2,276,172	7,554,592	-
Net FX open position	27,704,662	(28,772,571)	(1,118,560)	(3,495)	(456,910)	2,646,874	-

47. Market risk framework, measurement and management

The Group's activities expose it primarily to market risk which is defined as the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates, commodity prices and credit spreads (not relating to changes in the obligor's/issuer's credit standing) which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

- Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The Group separates its exposure to market risk between trading and banking book as defined below:

Market risk arising from trading book

Trading positions are held by the Treasury division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis. Realised and unrealised gains and losses on these positions are reported in consolidated income statement.

Market risk arising from banking book

Market risk from banking book arises from execution of the Group's core business strategies, products and services to its customers, that invariably create interest rate risk and open currency positions that the Group endeavours to manage through strategic positions to mitigate the inherent risk caused by these positions.

Banking book includes all positions that are not held for trading such as but not limited to the Group's investments in available-for-sale instruments, loans and advances carried at amortised cost, derivatives used for hedging and other financial assets held for long term.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off-balance sheet instruments and changes in the level and shape of market interest rate curves.

Risk identification and classification

The MRCC approves market risk policies for the Group. All business segments are responsible for comprehensive identification and verification of market risks within their business units. Regular meetings are held between market risk management and the heads of risk taking businesses to discuss and decide on risk exposures in the context of the market environment.

Management of market risk

The Board of Directors have set risk limits based on the Value-at Risk (VaR), Stressed Value at Risk (SVaR), Greeks, sensitivity/stress analysis and foreign exchange open position limits which are closely monitored by the risk management division and reported regularly to the senior management and discussed by ALCO.

47. Market risk framework, measurement and management (continued)**Management of market risk** (continued)

Market risk is identified, measured, managed and controlled by an independent risk control function. Market risk management aims to reduce volatility in operating performance and make the Group's market risk profile transparent to senior management, the Board of Directors and Regulators.

Market risk management is overseen by the Management Risk and Credit Committee (MRCC) and performs the following primary functions:

- establishment of a comprehensive mark-to-market valuation policy framework;
- establishment of a comprehensive market risk policy framework;
- independent measurement, monitoring and control of market risk;
- setting and monitoring of limits; and
- hedge effectiveness methodology.

Risk measurement

The following are the tools used to measure the market risk, because no single measure can reflect all aspects of market risk. The Group uses various matrices, both statistical and non-statistical, including sensitivity analysis.

Statistical risk measures

The Group measures the risk of loss arising from future potential adverse movements in market rates, prices and volatilities using VaR methodology. The VaR that the Group measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. This confidence level suggests that potential daily losses in excess of the VaR measure are likely to be experienced, once every hundred days. The Board has set limits for the acceptable level of risks in managing the trading book.

The Group uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VaR represents the risk of portfolios at the close of a business day and intra-day risk levels may vary from those reported at the end of the day. The actual trading results however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, the Group runs both SVaR and Expected Shortfall daily to monitor the tail risk outside the confidence limit. Stressed VaR is the VaR run through a stressed year rather than the previous year as used in VaR.

The Group's VaR for the year ended December 31 is as below:

	2017	2016
Daily value at risk (VaR at 99% - 1 day)	AED'000	AED'000
Overall risk	(10,786)	(5,151)
Average VaR	(9,423)	(5,754)

47. Market risk framework, measurement and management (continued)**Risk measurement** (continued)**Non-statistical risk measures**

Non-statistical risk measures, other than stress/sensitivity testing, include independent market valuations to ensure that the Group's valuations are correct and Risk Greeks to ensure that trading is within the risk appetite thresholds. These measures provide granular information of the Group's market risk exposures.

Independent market valuations/Greeks are validated by the market risk function in order to ensure that the market valuations/Greeks are measured correctly. The Group uses first order Risk Greeks to monitor and control market risk on a day to day basis. The interest rate delta and vega and the foreign exchange delta and vega are computed daily and monitored against a limit. The Board has set limits for the delta and the vega within acceptable level of risks in managing the trading book.

Sensitivity analysis

To overcome the VaR limitations mentioned under statistical measure above, the Group also carries out daily stress tests/sensitivity analysis of its portfolio to simulate conditions outside normal confidence intervals in order to analyse potential risk that may arise from extreme market events that are rare but plausible. The results of the stress tests are reported regularly to the Group's ALCO committee for their review.

Currency risk

The following table depicts the sensitivity of fair valuations in the trading and banking book to hypothetical, instantaneous changes in the level of foreign currency exchange rates - with other market risk factors held constant (including the USD-AED currency pair which is pegged) - which would have an impact on the Group's consolidated income statement:

	2017		2016	
	+5%	-5%	+5%	-5%
Price Shock in percentage	AED'000	AED'000	AED'000	AED'000
USD-AUD	900	498	109	606
EUR-USD	(5,229)	23,847	2,194	2,744
GBP -USD	2,540	2,753	(3,762)	(265)
USD-JPY	1,063	1,665	(294)	566
USD-CHF	527	999	770	125
USD-INR	(10,783)	11,918	(10,918)	12,063

Interest rate risk - trading book

The following table depicts the sensitivity of fair valuations in the trading book to hypothetical and instantaneous changes in the level of interest rates - with other market risk factors held constant - which would have an impact on the Group's consolidated income statement:

Relative instantaneous rate move shift for all tenors:

	2017		2016	
	+25bps	-25bps	+25bps	-25bps
	AED'000	AED'000	AED'000	AED'000
AED	29,424	(27,274)	438	(102)
USD	(24,052)	42,262	(1,098)	3,137

47. Market risk framework, measurement and management (continued)**Risk measurement** (continued)**Sensitivity analysis** (continued)**Interest rate risk - banking book**

The following table depicts the sensitivity of fair valuations in the non-trading book to hypothetical and instantaneous changes in the level of interest rates - with other market risk factors held constant - which would have an impact on the Group's consolidated income statement:

	2017		2016	
	+25 bps AED'000	-25 bps AED'000	+25 bps AED'000	-25 bps AED'000
Sensitivity of net interest income	59,187	(59,187)	95,861	(95,862)

The sensitivity on the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities, including the effect of hedging instruments.

48. Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks can arise from all business processes and activities carried out by the Group and can expose the Group to potentially large losses, regulatory criticism and reputational damage. The Group manages operational risk exposures through a consistent set of management processes that includes but is not limited to: risk identification through analysis of end to end processes within the Group, assessment of risk within those processes on an inherent and residual basis, implementing of control strategies, mitigation and monitoring of risk. The Operational Risk Management Framework is built on elements that allow the Group to effectively manage and measure its operational risk profile and to calculate the amount of operational risk capital it needs to hold to absorb potential losses.

The framework is governed by three lines of defense concept:

- Each business group, as an integral part of their first line of defense responsibilities, is responsible for identifying and managing risks that arise from their activities. Identified operational risk exposures are rated 'Minor', 'Moderate', 'Significant' and 'Major' in accordance with the adopted risk assessment matrix which takes into consideration the likelihood of the event as well as its financial, regulatory, reputational and customer impact. Significant and Major risks are analysed to identify the root cause of any failure for remediation and future mitigation. Additionally, data on operational losses is systematically collected and analysed to identify loss causal factors, trends and concertation and subsequently address the root cause of failures.
- As the second line of defense, Group Operational Risk is responsible for setting and maintaining the standards for operational risk management and control. This includes defining appropriate policies and providing tools to manage and monitor operational risks within the Group's activities as well as providing consolidated operational risk reporting to the Group Management and the Board of Directors. Group Operational Risk function is well supported by the first line Business Operational Risk Managers, for identifying risks that are material to the Group and for maintaining an effective control environment across the organization. The business lines' inputs to and outputs from the Group's risk management and risk measurement and reporting systems are adequately challenged by the second line Group Operational Risk. New products, material process changes and critical outsourcing arrangements are also assessed and authorized in accordance with the Enterprise Risk Advisory Process and product governance policies and procedures. Operational risk reporting is an integral part of the governance framework. On a quarterly basis reporting is done to the Heads of Business Group, Senior Management Committees and the Board Risk Committee.
- As the third line of defense, Internal Audit function provides further independent review of the Group's operational risk management processes, systems and controls and reports to the Board and Senior Management Committee.

49. Foreign currency balances

Net assets amounting to Indian Rupee equivalent of AED 231,771 thousand (December 31, 2016 – AED 206,829 thousand) held in India are subject to the exchange control regulations of India.

50. Trust activities

As at December 31, 2017, the net asset value of the funds under the management of the Group amounted to AED 2,507,245 thousand (December 31, 2016 – AED 2,928,980 thousand).

51. Subsidiaries

The following is the list of subsidiaries of the Bank:

Name of subsidiary	Ownership interest	Incorporation		Principal activities
		Year	Country	
ADCB Securities LLC	100%	2005	UAE	Agent in trading of financial instruments and stocks.
Abu Dhabi Commercial Properties LLC	100%	2005	UAE	Real estate property management and advisory services.
Abu Dhabi Commercial Finance Solutions LLC	100%	2005	UAE	Financial investments.
Abu Dhabi Commercial Investment Services LLC	100%	2005	UAE	Financial investments.
Kinetic Infrastructure Development LLC	100%	2006	UAE	Financial investments.
Abu Dhabi Commercial Property Development LLC (*)	100%	2006	UAE	Property development.
Abu Dhabi Commercial Engineering Services LLC	100%	2007	UAE	Engineering services.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Treasury financing activities.
ADCB Markets (Cayman) Limited (Formerly known as ADCB Holdings (Cayman) Limited)	100%	2008	Cayman Islands	Treasury related activities.
ADCB Holdings (Labuan) Limited (*) (**)	100%	2008	Malaysia	Holding company.
ADCB Holdings (Malaysia) Sdn Bhd (*) (**)	100%	2008	Malaysia	Investment holding company.
ACB LTIP (IOM) Limited	Controlling interest	2008	Isle of Man	Trust activities.
Abu Dhabi Commercial Properties Consultancy LLC (*) (**)	100%	2008	UAE	Real estate consultancy.
Abu Dhabi Commercial Bank (UK Representative Office) Limited	100%	2008	United Kingdom	UK representative office and process service agent.
ADCB Fund Management SARL (**)	100%	2009	Luxembourg	Fund management company.
Abu Dhabi Commercial Islamic Finance Pvt.J.S.C. (**)	100%	2009	UAE	Islamic banking.
ITMAM Services FZ LLC (Formerly known as ADCB Services FZ LLC)	100%	2010	UAE	Transaction processing and back office support for the Group.
ADCB Islamic Finance (Cayman) Limited (*)	100%	2011	Cayman Islands	Islamic financing activities.
AD NAC Ventures WLL	99.75%	2012	Bahrain	Trust activities.
ITMAM Services LLC	100%	2013	UAE	Transaction processing and back office support for the Group.
Abu Dhabi Commercial Enterprises LLC (*)	100%	2013	Qatar	Engineering services.
Omicron Capital	100%	2014	Cayman Islands	Treasury financing activities.
ADCB Structuring I (Cayman) Limited	100%	2016	Cayman Islands	Treasury financing activities.
ADCB Structuring II (Cayman) Limited	100%	2016	Cayman Islands	Treasury financing activities.

(*) These subsidiaries are dormant.

(**) These subsidiaries are under liquidation.

52. Capital adequacy and capital management**Capital management process**

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the Central Bank of the United Arab Emirates;
- to safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of the United Arab Emirates. The required information is filed with the regulators on a regular basis as required under Basel II standards.

The UAE Central Bank vide its circular No. 27/2009 dated November 17, 2009 informed all the Banks operating in the UAE to implement Standardised approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has issued guidelines for implementation of Standardised approach and banks are required to comply and report under Pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements since March 2010. For operational risk, the Central Bank has given banks the option to use the Basic Indicators approach or the Standardised approach and the Group has chosen to use the Standardised approach.

The Bank currently uses the approach defined below for Pillar 1 reporting:

Credit risk: Standardised approach is used by the Group in calculating its capital requirements for credit risk. This approach allows the use of external ratings from designated credit rating agencies, wherever available, in determining the appropriate risk weights. The risk weight is determined by the asset class and the external rating of the counterparty. The net exposure incorporates off balance sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigants (CRM).

Market risk: For the regulatory market risk capital requirement, the Group uses the standardised approach.

Operational risk: Basel II includes a capital requirement for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentages of total operating income under each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. The Group has adopted the standardised approach in determining the operational risk capital requirements.

The Group also prepares an annual comprehensive ICAAP document. This document is a detailed assessment by the Group of its risk profile, approaches to assess and measure various material risks, capital planning under regular and stress scenarios.

The Group's capital management is driven by long/short term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Group seeks to optimise returns on capital and it has always been the objective to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

52. Capital adequacy and capital management (continued)**Capital management process** (continued)**Capital supply**

As per Basel II requirement, capital should comprise of the following:

Tier 1 capital includes paid-up share capital, share premium, published reserves (including post-tax retained earnings but excluding positive balance of cumulative changes in fair value), hybrid Tier 1 instruments (with prior approval from Central Bank) and non-controlling interests in the equity of subsidiaries less than wholly-owned.

Deductions are made from Tier 1 core capital as per the Basel guidelines/Central Bank of the UAE rules and includes goodwill and other intangibles at net book value, adjustments for the cumulative effect of foreign currency translation, negative balance of cumulative changes in fair value, treasury shares, current year loss/retained losses, shortfall in provisions and other deductions to be determined by the Central Bank of the UAE.

Tier 2 capital includes collective provisions per Basel guidelines and UAE Central Bank rules, undisclosed reserves, asset revaluation reserves/cumulative changes in fair value, hybrid (debt/equity) capital instruments and subordinated term loan.

Tier 3 capital includes principal form of eligible capital to cover market risks and consists of shareholders' equity and retained earnings (Tier 1 capital) and supplementary capital (Tier 2 capital). Subject to prior approval from the Central Bank of the UAE, banks may employ a third tier of capital (Tier 3), consisting of short term subordinated debt as defined in paragraph 49(xiv) of Basel II, for the sole purpose of meeting a proportion of the capital requirements for market risks, subject to the conditions in paragraph 49(xiii) and 49(xiv).

Securitised Assets

Exposures to securitised assets that are rated B+ and below (long term), below A3/P3 (short term), or are un-rated are deducted from the capital base and the deductions will be 50% from Tier 1 and 50% from Tier 2 capital.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital and the Group's business strategy, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk & Credit and Finance functions and is subject to review by the ALCO as appropriate.

52. Capital adequacy and capital management (continued)**BASEL II Capital adequacy ratio**

The ratio calculated in accordance with Basel II guidelines is as follows:

	2017 AED'000	2016 AED'000
Tier 1 capital		
Share capital (Note 22)	5,198,231	5,198,231
Share premium	2,419,999	2,419,999
Other reserves (Note 23)	7,425,119	7,423,305
Retained earnings	13,124,950	11,052,553
Capital notes (Note 26)	4,000,000	4,000,000
Less: Intangible assets (Note 16)	(18,800)	(18,800)
Less: Investment in associate	-	(102,489)
Total tier 1 capital	32,149,499	29,972,799
Tier 2 capital		
Collective impairment allowance on loans and advances	2,212,762	2,115,655
Cumulative changes in fair value (Note 23)	26,914	6,290
Subordinated notes (Note 20)	4,233,619	4,217,314
Less: Investment in associate	-	(102,488)
Total tier 2 capital	6,473,295	6,236,771
Total regulatory capital	38,622,794	36,209,570
Risk-weighted assets		
Credit risk	177,020,965	169,252,435
Market risk	10,718,938	8,343,579
Operational risk	14,529,229	13,741,466
Total risk-weighted assets	202,269,132	191,337,480
Capital adequacy ratio	19.09%	18.92%
Tier 1 ratio	15.89%	15.66%
Tier 2 ratio	3.20%	3.26%

The capital adequacy ratio was above the minimum requirement of 12% for December 31, 2017 (December 31, 2016 – 12%) stipulated by the Central Bank of the UAE.

Tier 1 capital resources

- (a) Ordinary shareholders' funds, which include the cumulative proceeds from the issuance of ordinary shares at their nominal value net of treasury shares. These instruments confer a share of ownership in the Bank, and carry no obligations.
- (b) Statutory and Legal reserves:
 - (i) Statutory reserve: As required by Article 239 of the UAE Federal Law No. (2) of 2015, 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Transfer to statutory reserve for the year is no longer required as the reserve has reached 50% of the paid up share capital. The statutory reserve is not available for distribution.
 - (ii) Legal reserve: In accordance with the Article 82 of Union Law No. 10 of 1980 and the Articles of Association of the Bank, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Transfer to legal reserve for the year is no longer required as the reserve has reached 50% of the paid up share capital. The legal reserve is not available for distribution.

52. Capital adequacy and capital management (continued)**BASEL II Capital adequacy ratio** (continued)**Tier 1 capital resources** (continued):

(c) General and Contingency reserves:

- (i) General reserve: In accordance with the Articles of Association of the Bank, a further percentage of net profit for the year can be transferred to the general reserve based on the recommendation of the Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 25% of the nominal value of the paid up share capital. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.
- (ii) Contingency reserve: The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.
- (d) Employees' incentive plan shares: The Bank grants equity-settled share-based payments to employees. These shares are acquired by the Bank for its employees and are deducted from capital.
- (e) Cash flow hedge reserve: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity.
- (f) Foreign currency translation reserve: The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.
- (g) Retained earnings which represent the cumulative profits not distributed to shareholders, and other eligible reserves.
- (h) Non-controlling interests in equity of subsidiaries.
- (i) Capital notes: In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to ADCB's Tier 1 regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes"). The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank.

Deduction from Tier 1 resources includes intangible assets.

Tier 2 capital resources

- (a) Collective impairment allowance on loans and advances limited to 1.25% of credit risk-weighted assets.
- (b) Cumulative changes in fair value - The cumulative changes in fair values includes the cumulative net change in the fair value of available-for-sale investments measured at fair value through other comprehensive income. However, it is limited to 45% if the balance is positive. But if the balance is negative, the entire balance is adjusted in Tier 1 capital.
- (c) Eligible subordinated notes (Note 20).

BASEL III Capital adequacy ratio

In December 2010 (revised in June 2011), the Basel Committee on Banking Supervision issued Basel III, a global regulatory framework, to enhance international capital standards. Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity capital requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banking organisations to hold capital in excess of regulatory minimums. In February 2017, the Central Bank of the UAE published enhanced regulatory capital rules vide notifications 52 and 60/2017 which implemented Basel III in the UAE.

52. Capital adequacy and capital management (continued)
BASEL III Capital adequacy ratio (continued)

To achieve broader macro-prudential goal of protecting the banking sector from the periods of excess aggregate credit growth and in addition to the capital conservation buffer (CCB) requirement, banks may be required to implement the countercyclical buffer (CCyB). Banks must meet CCB and CCyB requirement by using CET1 capital. The level of CCyB requirement will vary between 0% - 2.5% of risk weighted assets and will be communicated by the Central Bank with adequate notice period. Further, to reduce risks related to the failure of domestic systemically relevant institutions, the Central Bank of the UAE has introduced domestic systemically important banks (D-SIB) buffer of 0.5%. ADCB has been listed as a D-SIB and is required to maintain a D-SIB buffer of 0.5% from 2019.

To enable banks to meet the new standards, the notification contains transitional arrangements commencing January 1, 2017 through January 1, 2019. Transitional requirements result in a phase-in of capital conservation and D-SIB buffer over 3 years. As of January 2019, the banks will be required to meet new minimum requirements related to risk-weighted assets as mentioned below:

Transitional arrangement	2017	2018	2019
CET1 including buffers			
- CET1	7.000%	7.000%	7.000%
- CCB	1.250%	1.875%	2.500%
- D-SIB buffer	0.250%	0.375%	0.500%
CET1 including buffers	8.500%	9.250%	10.000%
Additional tier 1 (AT1) capital	1.500%	1.500%	1.500%
Tier 1	10.000%	10.750%	11.500%
Tier 2	2.000%	2.000%	2.000%
Minimum capital requirement	12.000%	12.750%	13.500%

The ratio calculated in accordance with Basel III guidelines are as follows:

	2017 AED'000
Common equity tier 1 (CET1) capital	
Share capital (Note 22)	5,198,231
Share premium	2,419,999
Other reserves (Note 23)	7,680,403
Retained earnings	13,124,950
Regulatory deductions and adjustments	
Intangible assets (Note 16) (*)	(15,040)
Cash flow hedge reserve (Note 23) (*)	(152,296)
Employee's incentive plan shares, net (Note 23) (*)	(51,932)
Cumulative changes in fair value (Note 23)	26,914
Total CET1 capital	28,231,229
Additional tier 1 (AT1) capital	
Capital notes (Note 26)	4,000,000
Transitional deduction from AT1 capital (10% for 2017)	(27,408)
Total AT1 capital	3,972,592
Total tier 1 capital	32,203,821
Tier 2 capital	
Collective impairment allowance on loans and advances	2,212,762
Subordinated notes (Note 20)	4,233,619
Transitional deduction from tier 2 capital (10% for 2017)	(27,408)
Total tier 2 capital	6,418,973
Total regulatory capital	38,622,794
Risk-weighted assets	
Credit risk	177,020,965
Market risk	10,718,938
Operational risk	14,529,229
Total risk-weighted assets	202,269,132

52. Capital adequacy and capital management (continued)**BASEL III Capital adequacy ratio** (continued)

CET1 ratio	13.96%
AT1 ratio	1.96%
Tier 1 ratio	15.92%
Tier 2 ratio	3.17%
Capital adequacy ratio	19.09%

(*) transitional deduction from CET1 (80% for 2017)

53. Social contributions

The Group made the following social contributions during the year:

	2017	2016
	AED'000	AED'000
Donations	5,560	6,019
Sponsorships	12,371	5,922
Total social contributions	17,931	11,941

54. Legal proceedings

The Group is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial statements if disposed unfavourably.