
SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

DIRECTORS' REPORT AND CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

SHARJAH ISLAMIC BANK
Directors' Report

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of SHARJAH ISLAMIC BANK ("the Bank") and its subsidiaries, together referred to as ("the Group") for the year ended 31 December 2016.

Financial Highlights

As at 31 December 2016, total assets of the Bank increased by AED 3.7 billion to reach AED 33.5 billion, an increase of 12.2%.

Financing and Ijarah receivables increased by 4.5% (AED 741.8 million) to reach AED 17.1 billion and customer deposits increased by 8.1% (AED 1.4 billion) to reach AED 18.3 billion.

Capital adequacy ratio stands at a strong level of 21.35% as at 31 December 2016.

Net operating income for the Bank increased by 1.5%, to reach AED 890.4 million for 2016 as compared to AED 877.3 million in 2015.

Impairment provisions – net of recoveries (collective and specific) made in the year 2016 amounts to AED 227.5 million, a decrease of 35.0%.

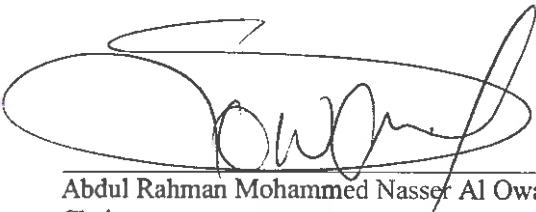
Net profits of AED 462.9 million is recorded for year ended 31 December 2016 compared to AED 409.9 million for the corresponding prior year, an increase of 12.9%.

The Directors propose to the Shareholders a dividend of 10% bonus share – 1 bonus share for every 10 shares amounting to AED 242.6 million (2015: 10% cash dividend of AED 242.6 million (AED 0.10 per share)), whereas proposed Directors' fees for the year ended 31 December 2016 amounts to AED 5.3 million (2015 : 5.3 million).

Auditors:-

KPMG were appointed as auditors of the Group for the year 2016 at the Annual General Meeting held on 27 February 2016.

KPMG expressed their willingness for their re-appointment for the year ending 31 December 2017.



Abdul Rahman Mohammed Nasser Al Owais
Chairman
26 January 2017



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Independent Auditors' Report

To the Shareholders of Sharjah Islamic Bank

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sharjah Islamic Bank ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (continued)

Impairment of Financing and Ijarah receivables

Refer to note 4 (iii) (a), 7, 8 and 25 of the consolidated financial statements.

The risk is that the carrying value of Financing and Ijarah receivables held at amortised costs may be misstated. Impairment is a subjective area due to the level of judgement applied by the management in determining the impairment allowance. Due to the significance of Financing and Ijarah receivables and the related estimation uncertainty, this is considered as a key audit matter.

Judgement is applied to determine appropriate parameters and assumptions used to calculate impairment, for example, the assumption of customers that will default, the valuation of collateral for secured lending and the viability of future cash flows of corporate loan customers. In addition, we also focused on individually significant exposures that either continued to be, have become, or are at risk of being individually impaired.

Our response

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

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

1) For corporates, our procedures included:

- Testing the key controls over the internal credit grading and monitoring process, to assess if the risk grades allocated to counterparties were appropriately identified, and updated, on a timely basis;
- Substantive testing of a selection of credit grades to test the appropriateness of the credit grades at a given point in time; and
- Performing credit assessments for a sample of loans in credit grades substandard, doubtful, loss and watch list categories. We assessed the reasonableness of the forecast of recoverable cash flows, realisation of collateral and other possible sources of repayment. We compared key assumptions to progress against business plans and our own understanding of the relevant industries and business environment. We also compared them, where possible, to externally derived evidence such as business performance and real estate valuations for assessing the appropriateness of the collateral values held by the bank.

Key Audit Matters (continued)

Impairment of Financing and Ijarah receivables (continued)

Our response (continued)

- 2) For retail customers, the impairment process is based on models accounting for number of days past due on each customer. Our procedures included understanding management's basis for determining whether a loan is impaired and assessed the reasonableness using our understanding of the Group's lending portfolios and our broader industry knowledge.
- 3) For Portfolio impairment provision (collective provision), our procedures included:
 - Testing on key management controls over the impact of underlying data into the models;
 - Evaluating the methodology and the key assumptions and assessing the appropriateness of the emergence period used in determining the estimate and wherever possible, we compare the key assumptions used to externally available industry, financial and economic data; and
 - For judgemental overlays, we challenged management to provide objective evidence that the overlays were appropriate.
- 4) For the key underlying systems used for the processing of transactions we involved our information technology specialists to test a selection of automated controls within these systems.
- 5) Assessing whether the consolidated financial statement disclosures appropriately reflect the Group's exposure to credit risk.

Valuation of financial instruments measured at fair value

Refer to note 9 and 29 of the consolidated financial statements.

The risk is that the valuation of financial instruments may be misstated due to the application of valuation techniques which often involve significant judgement and the use of assumptions and estimates. Due to the uncertainty in estimating some of the fair values, this is considered as a key audit matter.

Our response

Our audit procedures included:

- The assessment of controls over the identification, measurement and management of valuation risk, evaluating the methodologies, reasonableness of inputs and assumptions used by the Group in determining fair values;



Key Audit Matters (continued)

Valuation of financial instruments measured at fair value (continued)

Our response (continued)

- Assessing, for a selection of investments, key inputs, assumptions, considering alternate valuation methods used by management and supporting to key factors; and
- Assessing whether the consolidated financial statements disclosures of fair value risks and sensitivities appropriately reflect the Group's exposure to valuation risk.

Valuation of investment properties and properties held-for-sale

Refer to note 10, 11 and 29 of the consolidated financial statements.

The Group's accounting policy is to state its investment properties at fair value and properties held-for-sale at lower of cost or net realisable value at each reporting date.

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

The valuation of the portfolio is a significant judgment area and is underpinned by a number of assumptions. The existence of significant estimation uncertainty, warrants specific audit focus in this area as any bias or error in determining the fair value, whether deliberate or not, could lead to an overstatement (or understatement) of profit or loss and other comprehensive income for the year.

Our response

- We assessed the competence, independence and integrity of the external valuers and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;
- We obtained the external valuation reports for all properties and confirmed that the valuation approach is in accordance with RICS' standards and suitable for use in determining the carrying value in the consolidated statement of financial position;
- We carried out procedures, on the largest properties of the portfolio, to test whether property specific standing data supplied to the external valuers by management reflected the underlying property records held by the Group and which has been tested during our audit;



Other information (continued)

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

When we will read the Reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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



*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
(continued)*

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

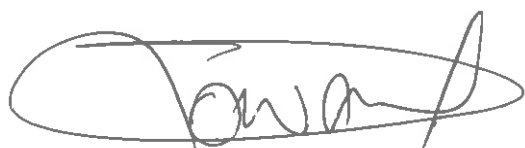
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

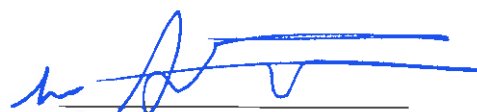
SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(Currency: Thousands of U.A.E. Dirham)

	Notes	2016	2015
Assets			
Cash and balances with banks and financial institutions	5	3,205,875	2,602,045
International murabaha and wakalah with financial institutions	6	4,641,134	4,315,697
Financing receivables	7	5,513,912	5,735,334
Ijarah receivable	8	11,577,091	10,613,873
Investment securities	9	4,107,195	2,364,160
Investment properties	10	2,124,359	1,811,784
Properties held-for-sale	11	573,248	652,965
Other assets	12	867,133	845,947
Property and equipment	13	929,279	940,888
Total assets		33,539,226	29,882,693
Liabilities			
Customers' deposits	14	18,328,936	16,953,018
Due to banks	15	3,850,960	2,046,372
Sukuks payable	16	5,497,916	5,133,860
Other liabilities	17	915,741	966,695
Zakat payable		89,429	78,347
Total liabilities		28,682,982	25,178,292
Shareholders' equity			
Share capital	18	2,425,500	2,425,500
Legal reserve	21	1,330,626	1,330,626
Statutory reserve	21	89,008	89,008
Fair value reserve	21	(29,492)	(31,867)
Retained earnings		1,040,602	891,134
Total shareholders' equity		4,856,244	4,704,401
Total liabilities and shareholders' equity		33,539,226	29,882,693

The consolidated financial statements were authorised for issue in accordance with a resolution of Directors on 26 January 2017 and signed on its behalf by:



Abdul Rahman Mohammed Nasser Al Owais
Chairman



Mohammed Ahmed Abdullah
Chief Executive Officer

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 to 11.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency: Thousands of U.A.E. Dirham)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Income from Islamic financing	22	838,379	811,876
Profit expense on sukuks		(156,237)	(168,634)
Investment, fees, commission and other income	23	665,212	663,623
Income from subsidiaries		27,063	28,544
Total income		<u>1,374,417</u>	<u>1,335,409</u>
General and administrative expenses	24	(484,043)	(458,132)
Net operating income		890,374	877,277
Provisions - net of recoveries	25	(227,505)	(349,995)
Profit before distribution to depositors		<u>662,869</u>	<u>527,282</u>
Distribution to depositors	26	(199,982)	(117,357)
Profit for the year (Attributable to the equity holders of the Bank)		<u>462,887</u>	<u>409,925</u>
Earnings per share (U.A.E. Dirham)	27	<u>0.19</u>	<u>0.17</u>

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The independent auditors' report is set out on page 3 to 11.



SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF
OTHER COMPERHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency: Thousands of U.A.E. Dirham)

	<u>2016</u>	<u>2015</u>
Profit for the year		
(Attributable to the equity holders of the Bank)	462,887	409,925
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in fair value reserve on investments classified at FVTOCI	<u>2,322</u>	<u>7,998</u>
Total comprehensive income for the year		
(Attributable to the equity holders of the Bank)	<u>465,209</u>	<u>417,923</u>

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SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency: Thousands of U.A.E. Dirham)

	Notes	2016	2015
Cash flows from operating activities:			
Profit for the year		462,887	409,925
Adjustments:			
Depreciation	13	31,604	33,128
Amortisation of sukuks issuance cost		4,362	3,995
Provision on financing and ijarah receivables	25	197,750	348,302
Provision on subsidiaries receivables	25	23,446	1,693
Provision for impairment on investment securities	25	6,402	-
Gain on disposal of properties held-for-sale		(225,515)	(5,075)
Revaluation gain on investment properties	10	(70,113)	(337,945)
Loss / (gain) on disposal of investment properties		313	(5,733)
Gain on disposal of properties and equipment		(101)	(38)
Operating profit before changes in operating assets and liabilities		431,035	448,252
Changes in:			
Reserve with UAE Central Bank		(153,232)	(225,845)
International murabaha and wakalah with financial institution		(383,766)	(821,824)
Financing and ijarah receivable		(939,546)	(2,222,855)
Other assets		(44,632)	3,902
Customers' deposits		1,375,918	2,361,050
Due to banks		1,191,210	(1,356)
Zakat payable		(54,484)	(43,331)
Other liabilities		(56,204)	(49,122)
Net cash from / (used in) operating activities		1,366,299	(551,129)
Cash flows from investing activities:			
Acquisition of properties and equipment		(20,401)	(26,464)
Disposal of properties and equipment		507	110
Acquisition of investment properties		(181,491)	(68,432)
Disposal of investment properties		32,860	17,896
Acquisition of properties held for sale		(337,505)	(209,721)
Disposal of properties held for sale		548,593	20,216
Investment securities, net		(1,747,115)	(774,995)
Net cash used in investing activities		(1,704,552)	(1,041,390)
Cash flows from financing activities:			
Proceeds from Sukuk repayment / issuance, net		359,694	1,831,132
Cash dividends	19	(242,550)	(242,550)
Net cash from financing activities		117,144	1,588,582
Net decrease in cash and cash equivalents		(221,109)	(3,937)
Cash and cash equivalents, beginning of the year	28	2,258,690	2,262,627
Cash and cash equivalents, end of year	28	2,037,581	2,258,690

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 to 11.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency: Thousands of U.A.E. Dirham)

	ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK					
	Share capital	Legal reserves	Statutory reserves	Fair value reserve	Retained earnings	Total shareholders' equity
As at 1 January 2015	2,425,500	1,330,626	89,008	(68,698)	811,956	4,588,392
Total comprehensive income for the year						
Profit for the year	-	-	-	-	409,925	409,925
Other comprehensive income						
Net change in fair value reserve	-	-	-	7,998	-	7,998
Total comprehensive income for the year	-	-	-	7,998	409,925	417,923
Transactions with owners recorded directly in equity						
Realized loss on Financial assets through OCI transferred to retained earning	-	-	-	28,833	(28,833)	-
Dividends declared (note 19)	-	-	-	-	(242,550)	(242,550)
Zakat	-	-	-	-	(55,864)	(55,864)
Board of directors' fees (note 20)	-	-	-	-	(3,500)	(3,500)
Total transactions with owners	-	-	-	28,833	(330,747)	(301,914)
As at 31 December 2015	2,425,500	1,330,626	89,008	(31,867)	891,134	4,704,401
As at 1 January 2016	2,425,500	1,330,626	89,008	(31,867)	891,134	4,704,401
Total comprehensive income for the year						
Profit for the year	-	-	-	-	462,887	462,887
Other comprehensive income						
Net change in fair value reserve	-	-	-	2,322	-	2,322
Total comprehensive income for the year	-	-	-	2,322	462,887	465,209
Transactions with owners recorded directly in equity						
Realized loss on Financial assets through OCI transferred to retained earning	-	-	-	53	(53)	-
Dividends declared (note 19)	-	-	-	-	(242,550)	(242,550)
Zakat	-	-	-	-	(65,566)	(65,566)
Board of directors' fees (note 20)	-	-	-	-	(5,250)	(5,250)
Total transactions with owners	-	-	-	53	(313,419)	(313,366)
As at 31 December 2016	2,425,500	1,330,626	89,008	(29,492)	1,040,602	4,856,244

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 to 11.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency: Thousands of U.A.E. Dirham)

1. Legal status and activities

SHARJAH ISLAMIC BANK ("the Bank") was incorporated in 1975 as a public joint stock company by an Emiri Decree issued by His Highness the Ruler of Sharjah, United Arab Emirates and is listed in Abu Dhabi stock market.

At the extraordinary shareholders' meeting held on 18 March 2001 a resolution was passed to transform the Bank's activities to be in full compliance with the Islamic Shari'a rules and principles. The entire process was completed on 30 June 2002 ("the transformation date"). As a result the Bank transformed its conventional banking products into Islamic banking products during the 6-month period ended 30 June 2002 after negotiation and agreement with its customers.

The Bank is mainly engaged in corporate, retail and investment banking activities in accordance with its articles of incorporation, Islamic Shari'a principles and regulation of the Central Bank of UAE ("the CBUAE"), which are carried out through its 32 branches (2015 : 31 branches) established in United Arab Emirates.

The consolidated financial statements of the Group comprise the Bank and its fully owned subsidiaries incorporated in United Arab Emirates, Sharjah National Hotels (SNH), Sharjah Islamic Financial Service (SIFS) and ASAS Real Estate (all together referred to as "the Group"). SNH through its divisions is engaged in operating hotels and resorts, catering and related services, whereas SIFS is involved in conducting intermediation in dealing in local market Shari'a compliant shares; ASAS Real Estate is involved in real estate business.

The registered address of the Bank is Post Box No.4, Sharjah, United Arab Emirates.

2. Basis of preparation

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting standards ("IFRS") as issued by International Accounting Standard Board ("IASB"), and comply with the guidance of the CBUAE, Islamic Shari'a principles and applicable requirements of the UAE Federal law. Federal Law No 2 of 2015 ("UAE Companies Law of 2015") was issued on 1 April 2015 and has enforced from 1 July 2015. Companies are allowed to ensure compliance with the UAE Companies Law of 2015 by 30 June 2017 as per the transitional provisions contained therein. The Bank is currently in the process of implementing all changes required by the UAE Companies Law of 2015.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following that are measured at fair value:

- i) financial assets at fair value through profit or loss (FVTPL);
- ii) financial assets at fair value through other comprehensive income (FVTOCI); and
- iii) investment properties

c. Functional and presentation currency

These consolidated financial statements of the Group are presented in UAE Dirham (AED), which is the Group's functional and presentation currency, rounded to the nearest thousand.

d. Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2. Basis of preparation (continued)

d. Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. In particular these estimates and judgments relate to impairment losses on financing and ijara receivables and amortised cost investments, valuation of unquoted investment securities, financial assets classified at FVTPL and FVOCI, investment properties and impairment losses on investment securities (refer note 29).

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the mandatory adoption of new accounting standards stated in note 3(z). The significant accounting policies adopted in preparation of these consolidated financial statements are as follows:

a. Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group. Control is achieved when the Group has:

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

The Group 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.

i) Subsidiaries

Subsidiaries' are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

ii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest (NCI) and other components of equity. Any resulting gain or loss is recognised in the consolidated statement of profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

iv) Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the Islamic securitization of particular assets, or the execution of a specific financing transaction. Special purpose entities are included in the Group's consolidated financial statement where the substance of the relationship is that the Group controls the special purpose entity.

v) Fiduciary activities

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors in the fiduciary capacity as trustee/manager. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management is set out in note 34.

3. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments

i. Classification of financial assets

A financial instrument is any contract that gives rise to both a financial asset for the Group and a financial liability or equity instrument for another party or vice versa. The Group classifies its financial assets at initial recognition in the following categories:

Financial assets measured at amortised costs

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

The effective profit rate method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income over the relevant period. The effective profit rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financing and investing instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

Income is recognised in the consolidated statement of profit or loss on an effective profit rate basis for financing and investing instruments measured subsequently at amortised cost.

Financial assets measured at amortised costs are initially measured at fair value plus transaction costs. Subsequently, they are measured at amortised cost using their effective yield less any impairment, with profit recognised in the consolidated statement of profit or loss.

Subsequent to the initial recognition, the Group is required to reclassify investments from amortised cost to FVTPL or FVOCI, if the objective of the business model changes so that the amortised cost criteria is no longer met.

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election (on instrument by instrument basis) to designate equity investments under the classification of FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Financial assets measured at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income. Gains and losses recognised in OCI are not reclassified to consolidated statement of profit or loss upon disposal.

Dividends on these investments are recognised in the consolidated statement of profit or loss when Group's right to receive is established.

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

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

3. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

i. Classification of financial assets (continued)

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking.

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

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

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

Following terminologies for financial assets, classified under each of the financial instrument classification mentioned above, have been used in preparation of these consolidated financial statements:

Murabaha is an agreement for sale of commodities purchased by the Bank based on the promise of the customer to buy the commodities on a cost plus the agreed profit basis.

Istisna'a is a sale contract between two parties whereby the Bank undertakes to construct, for its customer, a specific asset or property according to certain pre-agreed specifications to be delivered during a pre-agreed period of time in consideration of a pre-determined price, which comprises the cost of construction and a profit amount.

Wakala is an agency or a delegated authority where the muwakkil (principal) appoints the wakil (agent) to carry out a specific job on behalf of the muwakkil.

Musharaka is an agreement between the Bank and its customer, whereby both parties contribute towards the capital of the Musharaka (the "Musharaka Capital"). The subject of the Musharaka may be a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to a pre-agreed profit distribution ratio as stipulated under the Musharaka agreement.

Sukuks are asset backed Sharia'a compliant trust certificates.

Qard Hasan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

Ijarah is classified as a finance lease, when the Bank transfers substantially all the risks and rewards incident to an ownership of the Ijarah receivable to the lessee. Ijarah receivable represent finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. The lease agreements provide that the lessor undertakes to transfer the leased property to the lessee upon receiving the final rental payment or the agreed price. Ijarah receivables are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

3. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

ii. Classification of financial liabilities

Group has classified all its financial liabilities at amortised cost. These include customer deposits, due to banks and other financial institution, sukuk payable, other liabilities, except employees' end of service benefit, and zakat payable

iii. Recognition of financial instruments

The Group initially recognises financing receivables, ijara receivables and other sukuk investments on the day when they are originated. All other financial assets and liabilities are recognised when a Group becomes a party to the contractual provisions of the instrument i.e. trade date (including regular way purchase and sale of financial assets).

iv. Derecognition of financial instruments

The Group derecognises financial assets when the contractual right to the cash flows from the financial assets expires, or when it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risk and rewards of the ownership of the financial assets are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

v. Fair value measurement principles

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

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

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

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

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

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

Investments in unlisted funds and securities are fair valued internally by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values these are tested before they are used and models are calibrated to ensure that outputs reflects actual data and comparative market prices.

3. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

vi. Impairment of financial assets

Financial assets classified at amortised cost are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. A financial asset or group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows relating to the asset that can be reliably measured. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Movement in provisions is recognised in the consolidated statement of profit or loss. Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted.

Impairment of financing receivables and ijara financing, measured at amortised cost, is assessed by the Group as follows:

Individually assessed financing receivables and ijara financing

Financing receivables and ijara financing are individually assessed as to whether there exists any objective evidence of impairment. These assets are classified as impaired as soon as there is doubt about the customer's ability to meet payment obligations to the Group in accordance with the original contractual terms.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral, calculated using the financial asset's original effective profit rate.

Collectively assessed financing receivables and ijara financing

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

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

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

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

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

3. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

vii. Write offs of financial assets

Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted.

c. Investment properties

Properties held for rental or capital appreciation are classified as investment properties. Investment properties are initially stated at cost and subsequently measured at fair value, determined at least annually by an independent professional valuer. Any gain or loss arising from a change in fair value is recognised in the consolidated statement of profit or loss.

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

Transfers to and from investment properties are made when and only when there is change in use, evidenced by either starting or ending of owner-occupation, commencement or cessation of an operating lease to another party or commencement or cessation of construction or a development plan.

e. Properties held-for-sale

Properties acquired or constructed with the intention of sale are classified as properties held for sale. Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for properties less all estimated costs of completion and costs necessary to make the sale.

Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when the activities that are necessary to get the assets ready for the intended use are in progress.

Transfer to and from held-for-sale properties is either upon completion of under-construction properties or in case of change in use.

f. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Except for freehold land, property and equipment are depreciated on a straight-line basis over their estimated useful lives, using annual rates of 5% to 33% depending on the type of asset involved.

g. Intangibles

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on intangible asset is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis to consolidated statement of profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is seven years.

3. Summary of significant accounting policies (continued)

h. Other assets

Other assets include profit and other receivables which are stated at amortised cost net of provision for impairment, if any.

i. Impairment of non-financial assets

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

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

j. Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

k. Cash and cash equivalents

Cash and cash equivalents consist of cash and balances with the CBUAE (excluding statutory reserves), nostro balances with other banks and financial institutions, international murabaha and wakalah arrangements, due to banks and other highly liquid assets with original maturities of less than three months from the date of acquisition and are used by the Group in the management of its short term commitments.

l. Other liabilities

These include financial liabilities and other payables. Financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of expected future payments at the discount rate that reflects current market assessment of the time value of money for a liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are stated at amortised cost using the effective yield method.

Other payables are stated at cost and are recognised for amounts to be paid in the future for goods or services received, whether or not billed.

m. Acceptances

Acceptances are recognised as 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.

n. Provision

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

3. Summary of significant accounting policies (continued)

o. Zakat

Zakat is computed in accordance with the Bank's Articles of Association and is approved by the Bank's Fatwa and Shari'a Supervisory Board. Zakat is calculated at 2.577% (to account for the difference between the Gregorian and Lunar calendar) on the Bank's reserves, retained earnings and provision for staff end of service benefits at the year end and it is the Bank's shareholders responsibility to pay the Zakat on their respective share in the Bank's capital and the distributed cash dividends.

p. Financial guarantees and financial commitments

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

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

q. Revenue recognition

Murabaha

The profit on Murabaha is quantifiable and contractually determined at the commencement of the contract; profit is recognised as it accrues over the period of the contract on an effective yield basis.

Ijarah

Income from Ijarah receivable is recognised on an accrual basis on an effective yield basis.

Fees and commissions

Fees and commissions income relating to underwriting and financing activities is recognised as the related service is performed. Fees and commission income and expense that are integral to the effective profit rate on a financial asset or financial liability are included in the measurement of the effective profit rate

Rental income

Rental income from investment properties are recognised in profit and loss on a straight-line basis over the term of the leases.

Dividend income

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

3. Summary of significant accounting policies (continued)

q. Revenue recognition (continued)

Other income

Other income includes revenue from provision of accommodation, food, beverages and brokerage commission relating to the services provided by the subsidiaries.

Revenue from provision of accommodation, food, beverages and other services is recognised on an accrual basis as the services are rendered.

Commissions are accounted for on the completion of the brokerage deal.

Revenue from sale of properties

Revenue from the sale of properties is recognised when the properties are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the properties;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Cost of sale of property includes the cost of land and development costs. Development costs include the cost of infrastructure and construction. The cost of sale in respect of apartments is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

r. Distribution of profit between holders of unrestricted investment deposit and the shareholders

The Bank has complied with Shari'a rules as set out below:

Net gains on all items of income and expenses at the end of each month are the net profit distributable between the shareholders and the holders of unrestricted investment deposits.

- The share of the holders of unrestricted investment deposits is calculated from the net profit on a daily basis after deducting the Bank's agreed upon and declared Mudaraba percentage.
- Due to the amalgamation of unrestricted investment funds with the Bank's funds for the purpose of investment, no priority has been given to either party in the appropriation of profit.

s. Provision for end-of-service benefits

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

The Group provides end of service benefits for its expatriate employees in accordance with U.A.E. Labour Law. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

t. Due to Banks

Amounts due to banks are initially recognised at the fair value of the consideration received, and are subsequently measured at amortised cost using the effective profit method.

u. Customers' deposits

The Bank accepts customer savings and time deposit on a Mudaraba and Wakala basis, whereas current and other similar in nature deposits are accepted on a Qard Hassan (profit free loan) basis.

3. Summary of significant accounting policies (continued)

v. Translation of foreign currencies

Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions.

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

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognised in consolidated statement of profit or loss, other than investments classified as FVOCI, where the exchange translation is recognised in other comprehensive income.

w. Offsetting

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

Income and expenses are presented on a net basis only when permitted by under IFRS.

x. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary share. Basic EPS is calculated by dividing the profit or losses attributable to ordinary shareholders of the Bank by the weighted average number of ordinary share outstanding during the year. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

y. Segment reporting

Income and expenses directly associated with each segment, as well as those that can be reasonably associated on a reasonable basis, are included in determining business segment performance. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is a person or group of persons that allocates resources and assesses the performance of the operating segments of an entity. The Bank has determined the Bank's management Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis.

3. Summary of significant accounting policies (continued)**z. Standards and interpretation adopted for accounting periods beginning on 1 January 2016**

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

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016. The changes did not have a material impact on the Group's consolidated financial statements.

- Amendments to IFRS 11 and IAS 27 – Equity method in Separate Financial Statements
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 27– Equity Method in Separate Financial Statements
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards
- Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception
- Amendments to IAS 1 - Disclosure Initiative

aa. Standards and interpretation issued and not yet effective for accounting periods beginning after 1 January 2016

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

Standards	Description	Effective for the periods beginning after 1 January 2016
IFRS 9	Financial Instruments (Phase II and Phase III)	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 7 (Amendment)	Statement of cash flows	1 January 2017

IFRS 9 (Phase II and Phase III) includes new guidance on expected credit loss model for calculating impairment on financial assets and a new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Bank has performed a preliminary assessment of the impact of IFRS 9 'Financial Instruments' as per the instructions of the Central Bank of UAE. The Bank's focus continues to be on developing the impairment models and processes which are needed for the parallel run during 2017 in order to be fully compliant with IFRS 9. The Bank believes that once they finalize the impairment model and processes, they will be in a better position to assess the potential impact of IFRS 9 on the consolidated financial statements and any consequential effects on regulatory capital requirements.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. The Group is still evaluating the potential impact of this standard.

IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under IFRS 16 there shall be an on-balance sheet accounting model that is similar to current finance lease accounting. The Group is still evaluating the potential impact of this standard.

4. Risk management

i. Risk management framework

The Board of Directors ("the Board") is responsible for the overall framework of the risk governance and management. The Board is responsible for determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. It is also responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures, infrastructure and management of all risks related to the Group.

In order to effectively discharge this responsibility, the Board is assisted by three Board Committees and five Management Committees. The briefing about the role and function of each committee is as follows:

Executive Committee (EC)

EC acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives. EC consists of four members.

Audit Committee (AC)

The AC consists of Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Reviewing reports on the internal controls;
- Managing the relationship with the Group's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

Risk Management Committee (RMC)

The RMC consists of Board Members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the risks inherent in the businesses of the Bank and the control processes with respect to such risks;
- Reviewing the risk profile of the Bank;
- Managing the Risk Management Compliance and control activities of the Bank;
- Providing a critical assessment of the organisation's business strategies and plans from an Enterprise risk perspective; and
- Ensuring that appropriate policies and procedures are in place for managing risks to which the bank is exposed.

Management Committee (MC)

The scope of management committee includes all cross functional issues that are not covered in the scope of other committees. Typically, MC covers the areas like strategic, policies, human resources, marketing and administrative processes. In addition, the MC is also responsible to liaise with all other units/divisions across the Group.

Investment Committee (IC)

The purpose of the Investments Committee is to review the quality of the Bank's Investment portfolio on behalf of the Board of Directors, trends affecting the portfolio, the administration of investment related policies, as well as the approval of Investment proposals, including Sukuks and Syndicate Finance within the approval limit set by the BOD.



4. Risk management (continued)

i. Risk management framework (continued)

IT Steering Committee (ITSC)

The ITSC provides strategic and tactical guidance for managing the Group's overall technology systems in the long and short term, to ensure that Information Technology (IT) initiatives are consistent with the strategic business goals of the Group. The ITSC is charged with assisting the Board in:

- Providing guidance in the prioritization and implementation of technology initiatives and projects (including those related to infrastructure);
- Reviewing IT operations;
- Reviewing IT Security plans, policies and reports relating to the effectiveness of information security, their implementation and measures taken to address any residual risks;
- Reviewing Business Continuity plans, policies and reports relating to the effectiveness of business continuity, their implementation and measures taken to address any residual risks; and
- Reviewing the Group's IT development, strategic opportunities and plans.

Asset and Liability Committee (ALCO)

The objective of ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors.

The roles of ALCO include the following:

Develop an effective asset and liability management process and related procedures to oversee and monitor the Group's approved policies and procedures in relation to the management and control of the following risks:

- Liquidity risk – being the risk from the Group's inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding;
- Market risk – being the following risks;
 - The risk to earnings from adverse movements in profit rates, exchange rates and market volatility; and
 - The risk from changes in the value of portfolio of financial instruments;
- Statement of financial position risk - being the following risks;
 - The risk to earnings from changes in profit rates and market volatility in retail and wholesale rates;
 - The risk to value and capital from changes in the value of assets and liabilities as a result of changes in profit rates and market volatility; and
 - The risk from material changes in global and domestic economic conditions generally.

Credit Committee (CC)

CC manages the credit risk of the Group by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the loans portfolio and the sufficiency of provisions thereof.

Human Resource Committee (HRC)

HRC manages the resources, performance and requirement of individuals required by Group on time to time basis.

4. Risk management (continued)

i. Risk management framework (continued)

Risk management group (RMG)

In order to manage the credit, market, operational and IT security risks an RMG is in place. Its role includes the following:

- develop a strategy, policy and framework for risk management such that these are aligned with business requirements;
- provide support to the Group in implementation of the framework;
- bring together analysis of risk concentrations and sensitivities across the Group;
- act as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- provide independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

Compliance

The overall role of compliance is to:

- ensure compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- ensure senior management is fully informed of significant compliance issues including "KYC" and "AML", and plans for their resolution;
- contribute to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- align annual compliance plans with business strategies and goals; and
- meet regulatory expectations.

Internal audit

The role of the internal audit department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures.

It is led by the head of internal audit who reports to the AC of the Board of Directors, with administrative reporting to the Chief Executive Officer (CEO).

To perform its role effectively, internal audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

Internal control

The role of the internal control department is to ensure that the Group has a sound internal control system in place, meeting international standards and fulfilling the requirements of the Group's management and external regulatory bodies. The functions and responsibilities of the Internal control department include:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enable the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Follow up of the operational activities from a preventive and detective angle and oversee operational controls being exercised to ensure that these are timely and effective.

4. Risk management (continued)

i. Risk management framework (continued)

ii. Financial risk management

The Group has exposure to the following primary risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

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

a. Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's financing receivables, ijarah receivable, balances with banks and financial institutions, international murabaha and wakalah with financial institutions, other assets and sukuks. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposures into different sectors.

The Group manages its credit risk exposure through diversification of its financing activities and investments to avoid concentration of risk with individuals or group of customers in specific location or business.

In addition, the Group manages the credit exposure by obtaining security where appropriate 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.

Regular audits of business units and Group credit processes are undertaken by internal audit division.

Concentration

Concentration risk arises when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group measure its exposure to credit risk by reference to gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

Concentration of credit risk by industrial sector for financing and ijara receivables are presented in notes 7b and 8b. Concentration of credit risk by geographical distribution of due from banks and international murabaha and wakalah arrangements with financial institutions is set out in note 30.

4. Risk management (continued)**ii. Financial risk management (continued)****a. Credit risk (continued)****Maximum exposure to credit risk**

The table below is the maximum exposure to credit risk for the Group and is shown gross, before any mitigation of collaterals.

	Gross maximum exposure	
	2016	2015
Cash and balances with banks and financial institutions	1,249,877	711,152
International murabaha and wakalah with financial institutions	3,841,134	3,615,697
Financing receivables	5,513,912	5,735,334
Ijarah receivable	11,577,091	10,613,873
Investment securities	3,052,674	1,653,758
Other assets	534,732	484,675
	<u>25,769,420</u>	<u>22,814,489</u>
Contingent liabilities	<u>1,678,864</u>	<u>1,624,564</u>
Total	<u>27,448,284</u>	<u>24,439,053</u>

Past due but not impaired financial assets

Financial assets that are 'past due but not impaired' are those for which contractual profit receivable or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group. The amounts disclosed exclude assets measured at fair value through profit or loss and fair value through other comprehensive income.

Individually impaired financial assets

The Group regards a financing asset as impaired in the following circumstances:

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.
- A retail financing is overdue under the guidelines of CBUAE.

A financing receivable that has been renegotiated due to deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Financial assets with renegotiated terms

For the purposes of disclosures in these financial statements, 'financing receivable with renegotiated terms' are defined as financing receivable that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favorable for the borrower than the Group had provided initially and that it would not otherwise consider.

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

4. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

Credit quality analysis

	Banks and financial institutions	Financing and ijara receivable	Loans and advances	Investment securities	Other assets	Total on balance sheet	Contingent liabilities	Total credit exposure
2016								
Individually impaired								
Substandard	-	81,159	-	-	-	81,159	-	81,159
Doubtful	-	882,881	-	25,607	-	908,488	-	908,488
Loss	-	128,152	-	-	53,434	181,586	-	181,586
Total	-	1,092,192	-	25,607	53,434	1,171,233	-	1,171,233
Past due but not impaired	-	195,349	-	-	-	195,349	-	195,349
Neither past due nor impaired	5,091,011	16,896,998	-	3,046,272	534,732	25,569,013	1,678,864	27,247,877
Total maximum exposure	5,091,011	18,184,539	-	3,071,879	588,166	26,935,595	1,678,864	28,614,459
Profit in suspense	-	(79,061)	-	-	-	(79,061)	-	(79,061)
Specific allowance for impairment	-	(689,971)	-	(19,205)	(53,434)	(762,610)	-	(762,610)
Collective allowance for impairment	-	(324,504)	-	-	-	(324,504)	-	(324,504)
Carrying amount	5,091,011	17,091,003	-	3,052,674	534,732	25,769,420	1,678,864	27,448,284
2015								
Individually impaired								
Substandard	-	584,760	-	-	55,800	640,560	-	640,560
Doubtful	-	404,297	-	25,607	-	429,904	-	429,904
Loss	-	112,248	27,008	-	-	139,256	-	139,256
Total	-	1,101,305	27,008	25,607	55,800	1,209,720	-	1,209,720
Past due but not impaired	-	74,302	-	-	-	74,302	-	74,302
Neither past due nor impaired	4,326,849	16,131,436	-	1,640,954	458,920	22,558,159	1,624,564	24,182,723
Total maximum exposure	4,326,849	17,307,043	27,008	1,666,561	514,720	23,842,181	1,624,564	25,466,745
Profit in suspense	-	(74,107)	(22,909)	-	-	(97,016)	-	(97,016)
Specific allowance for impairment	-	(566,725)	(4,099)	(12,803)	(30,045)	(613,672)	-	(613,672)
Collective allowance for impairment	-	(317,004)	-	-	-	(317,004)	-	(317,004)
Carrying amount	4,326,849	16,349,207	-	1,653,758	484,675	22,814,489	1,624,564	24,439,053

Bank and financial institutions exclude cash in hand and balances with the CBUAE.

4. Risk management (continued)**ii. Financial risk management (continued)****a. Credit risk (continued)****Credit risk analysis based on internal credit rating****Collaterals and securities**

The Group holds collateral and securities against financing and ijara receivable in the form of cash margins, personal guarantees, and mortgages over properties or other securities over assets. Estimates of credit risk mitigation relating to financing receivables and ijara are based on the value of collateral assessed at the time of financing, and are subsequently monitored on a periodic basis. A quantification of the extent to which collateral and other credit enhancements mitigate credit risk is shown below:

	Against neither past due nor impaired		Against past due but not impaired		Against individually impaired	
	2016	2015	2016	2015	2016	2015
Mortgage of property	11,961,359	11,482,567	195,349	73,236	668,977	664,453
Listed shares	-	-	-	-	-	205
Cash lien and others	131,019	128,741	-	1,066	-	-
Carrying amount	12,092,378	11,611,308	195,349	74,302	668,977	664,658

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by ensuring that a trade date is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit limits monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group risk.

b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

4. Risk management (continued)**ii. Financial risk management (continued)****b. Liquidity risk (continued)**

The Group's approach to manage liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding.

The Group's board of directors sets the Group's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Group's liquidity policies and procedures. Treasury department manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Group and operating subsidiaries. All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The Group's contractual maturities of financial instruments are summarised in the table below based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is to be maintained.

31 December 2016

	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Total
Assets					
Cash and balances with banks and financial institutions	3,205,875	-	-	-	3,205,875
International murabaha and wakalah with financial institutions	4,100,374	283,650	257,110	-	4,641,134
Financing receivables	1,838,592	627,860	1,997,414	1,050,046	5,513,912
Ijarah receivable	534,146	1,680,278	6,021,957	3,340,710	11,577,091
Investments securities	1,104,531	117,536	1,707,567	1,177,561	4,107,195
Other assets	413,481	121,251	-	-	534,732
	11,196,999	2,830,575	9,984,048	5,568,317	29,579,939
Liabilities					
Customers' deposits	15,552,594	2,776,342	-	-	18,328,936
Due to banks	2,665,360	-	1,185,600	-	3,850,960
Sukuks payable	-	-	5,497,916	-	5,497,916
Other liabilities and zakat payable	794,490	145,114	65,566	-	1,005,170
	19,012,444	2,921,456	6,749,082	-	28,682,982
Contingent liabilities	393,980	749,833	534,442	609	1,678,864

31 December 2015

Assets					
Cash and balances with banks and financial institutions	2,602,045	-	-	-	2,602,045
International murabaha and wakalah with financial institutions	3,005,364	1,023,839	286,494	-	4,315,697
Financing receivables	1,468,241	386,189	2,597,082	1,283,822	5,735,334
Ijarah receivable	408,192	189,016	4,029,437	5,987,228	10,613,873
Investments securities	891,177	42,503	673,743	756,737	2,364,160
Other Assets	283,239	201,436	-	-	484,675
	8,658,258	1,842,983	7,586,756	8,027,787	26,115,784
Liabilities					
Customers' deposits	13,974,196	2,978,822	-	-	16,953,018
Due to banks	2,046,372	-	-	-	2,046,372
Sukuks payable	-	1,468,637	3,665,223	-	5,133,860
Other liabilities and zakat payable	591,216	359,795	94,031	-	1,045,042
	16,611,784	4,807,254	3,759,254	-	25,178,292
Contingent liabilities	381,238	725,581	517,156	589	1,624,564

4. Risk management (continued)**ii. Financial risk management (continued)****b. Liquidity risk (continued)**

Cash and balances with banks and financial institutions include mandatory deposits with the CBUAE (refer note 28). The Group's expected cash flows may vary from this analysis, for example, demand deposits from customers are expected to maintain a stable or increasing balance.

The residual maturity of Group's financial liabilities is not significantly different from contractual maturity, since, the Group follows Shari'a principles and contractual returns based on profit or loss sharing basis and are not guaranteed.

c. Market risks

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market prices such as profit rates, foreign exchange rates and market prices of equity.

Profit margin risk

The Group is not significantly exposed to risk in terms of re-pricing its customer deposits, since, in accordance with Islamic sharia, the Group does not provide contractual rate of return to its investment account holders. The return payable to depositors and investment account holders is based on the principal of the mudarba by which the depositors and investment account holders agree to share the profits made by the Group's mudarba asset pool over a given period.

Profit rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market profit rates. Profit rate risk primarily comprises of market and valuation risk, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value. Overall pricing or profit rate risk positions are managed by the ALCO.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in profit rates on the net income for one year, based on the non-trading financial assets and financial liabilities.

	Increase / decrease in basis point	Increase / decrease in net income	
		2016	2015
Profit rate sensitivity on financial assets and liabilities	50 basis points	<u>13,766</u>	<u>16,998</u>

Currency risk

Currency risk is the risk that the Group's income or value of a financial instrument, other than functional currency denominated financial instruments, will fluctuate because of changes in foreign exchange rates.

Currency risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the Bank's open position and current and expected exchange rate movements. The Bank does not engage in foreign exchange trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or correlated currency.

The Board of Directors has set limits on positions by currency. Positions are closely monitored by ALCO to ensure positions are maintained within established limits.

4. Risk management (continued)**ii. Financial risk management (continued)****c. Market risk (continued)**

At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

Currency Net position	2016	2015
US dollar	<u>(1,082,730)</u>	(1,252,256)
UK Sterling	34,342	33
Euro	90	(487)
Bahrani Dinar	7,343	7,365
Qatari Riyal	2,356	1,206
Saudi Riyals	1,292	2,308
Kuwaiti Dinar	20,512	13,828

The exchange rate of AED against US Dollar is pegged since November 1980 and the Group's significant exposure to currency risk is limited to that extent.

Equity price risk

Equity price risk arises from the change in fair value of equity instruments. The Group manages this risk through diversification of investment in terms of geographical distribution and industry concentration.

The table summarises the impact of change in equity prices by $\pm 10\%$ on statement of profit or loss and other comprehensive income of the Group.

	2016		2015	
	Effect on profit	Effect on other comprehensive income	Effect on profit	Effect on other comprehensive income
Financial assets at fair value through profit or loss	<u>1,262</u>	-	<u>1,238</u>	-
Financial assets at fair value through other comprehensive income	-	<u>107,974</u>	-	<u>76,576</u>

d. Operational risks

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

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage, to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Group has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk Management Committee identify and manage operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance. In all cases, the Group's operational risk policies requires compliance with all applicable legal and regulatory requirements.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

4. Risk management (continued)**ii. Financial risk management (continued)****e. Capital management****Regulatory capital**

The Group's lead regulator, the CBUAE, sets and monitors regulatory capital requirements. The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and increase returns for shareholders; and
- Comply with regulatory capital requirements set by the CBUAE.

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

The Group's regulatory capital adequacy ratio is set by the CBUAE. The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the year. The Group has adopted a standardised approach for Credit risk and Market risk and a Basic Indicator approach for Operational Risk as a starting point and is working towards migrating to foundation internal rating based (IRB) and advanced IRB as per time line set by CBUAE.

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings
- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on financial assets classified as FVTPL, FVTOCI and collective impairment provision.

The following limits have been applied for Tier 2 capital:

- Total tier 2 capital shall not exceed 67% of tier 1 capital
- Subordinated liabilities shall not exceed 50% of total tier 1 capital
- Collective impairment provision shall not exceed 1.25% of risk weighted assets.

The table below summarises the composition of regulatory capital of the Group:

	Basel II	
	2016	2015
Tier 1 capital		
Ordinary share capital	2,425,500	2,425,500
Retained earnings	1,019,741	870,418
Statutory and special reserve	89,008	89,008
Legal Reserve	1,330,626	1,330,626
Total tier 1 capital base	4,864,875	4,715,552
Tier 2 capital		
Fair value reserve	(29,492)	(31,867)
Collective impairment provisions	270,002	257,614
Total tier 2 capital base	240,510	225,747
Total capital base	5,105,385	4,941,299
Risk weighted assets		
Credit risk	21,600,139	20,609,122
Market risk	155,621	48,498
Operational risk	2,152,438	1,915,850
Risk weighted assets	23,908,198	22,573,470
Tier 1 ratio	20.35%	20.89%
Capital adequacy ratio	21.35%	21.89%

5. Cash and balances with banks and financial institutions

		<u>2016</u>	<u>2015</u>
Cash		375,574	316,512
Statutory deposit with CBUAE		1,461,602	1,308,370
Due from banks	5.1	<u>1,368,699</u>	<u>977,163</u>
		<u>3,205,875</u>	<u>2,602,045</u>

5.1 Due from banks includes current account balance with CBUAE amounting AED 118 million (2015: 266 million).

6. International murabaha and wakalah with financial institutions

International murabaha		370,993	670,254
Wakala arrangements	6.1	<u>4,270,141</u>	<u>3,645,443</u>
		<u>4,641,134</u>	<u>4,315,697</u>

6.1 Wakala arrangements with financial institutions includes Islamic certificate of deposits with CBUAE amounting AED 800 million (2015: 700 million).

7. Financing receivables

Financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk. Financing receivables comprise the following:

a) By type

Vehicle murabaha		344,321	364,673
Goods murabaha		3,888,923	4,365,302
Real estate murabaha		240,785	281,875
Other murabaha receivable		295,046	506,895
Syndicate murabaha		668,232	473,549
Syndicate musharaka		150,000	150,000
Qard hasan		626,173	559,486
Credit card receivables		38,887	23,857
Istisna		421,930	102,452
Deferred profit		(413,674)	(445,027)
Provision for impaired financing receivables		<u>(746,711)</u>	<u>(647,728)</u>
		<u>5,513,912</u>	<u>5,735,334</u>

b) By sector

Government departments and authorities		393,948	34,496
Construction		233,662	181,715
Manufacturing		272,971	317,996
Transportation		274,660	245,482
Real estate		353,073	229,256
Trading		757,718	914,096
Financial institutions		165,998	324,473
Other services		686,051	213,841
Individual		1,911,161	1,478,479
High net worth individuals		1,612,119	2,878,682
Others		12,936	9,573
Deferred profit		(413,674)	(445,027)
Provision for impaired financing receivables		<u>(746,711)</u>	<u>(647,728)</u>
		<u>5,513,912</u>	<u>5,735,334</u>

c) Impairment provision for financing receivables

Balance, beginning of the year		647,728	420,920
Written off during the year		(63,631)	(29,600)
Additional provision for the year		179,490	262,371
Recoveries during the year		<u>(16,876)</u>	<u>(5,963)</u>
		<u>746,711</u>	<u>647,728</u>

8. Ijara receivable

Ijara receivable are finance leases, which comprise the following:

a) Net investment in Ijara receivable	2016	2015
Gross investment	11,844,855	10,849,874
Provision for impaired ijara receivable	<u>(267,764)</u>	<u>(236,001)</u>
	11,577,091	10,613,873
b) By sector		
Government departments and authorities	5,429,543	5,462,672
Construction	252,171	535,536
Manufacturing	248,097	227,493
Transportation	148,467	106,050
Real estate	1,539,845	574,068
Trading	185,781	146,891
Financial institutions	31,389	39,533
Other Services	492,297	330,195
Individual	559,089	277,257
High net worth individuals	2,958,176	3,150,179
Provision for impaired ijara receivable	<u>(267,764)</u>	<u>(236,001)</u>
	11,577,091	10,613,873
c) Impairment provision for ijara receivable		
Balance, beginning of the year	236,001	149,914
Written off during the year	(3,373)	(5,985)
Additional provision for the year	45,431	93,772
Recoveries during the year	<u>(10,295)</u>	<u>(1,700)</u>
	267,764	236,001

9. Investment securities

- Financial assets at fair value through profit or loss	42,077	41,835
- Financial assets at fair value through other comprehensive income	1,079,744	865,588
- Financial assets measured at amortised cost	<u>2,985,374</u>	<u>1,456,737</u>
	4,107,195	2,364,160

Investment securities – by category

Debt securities	3,014,836	1,486,191
Equities and funds	<u>1,092,359</u>	<u>877,969</u>
	4,107,195	2,364,160

Investments securities – by quoted / unquoted

- Financial assets at fair value through profit or loss:

Quoted	42,077	41,835
	<u>42,077</u>	<u>41,835</u>
-Financial assets at fair value through other comprehensive income		
Quoted	979,510	665,433
Unquoted	<u>100,234</u>	<u>200,155</u>
	1,079,744	865,588
- Financial assets measured at amortised cost		
Quoted	2,518,565	1,207,202
Unquoted	<u>466,809</u>	<u>249,535</u>
	2,985,374	1,456,737

9.1 The Bank has purchased equity investments worth AED 220.4 million during the year ended 31 December 2016 (2015: 367.3 million). Equity investments purchased during the year have been classified under fair value through other comprehensive income.



10. Investment properties

	Land and Completed properties	Properties under construction	Total
Balance as at 1 January 2016	1,811,604	180	1,811,784
Additions	171,814	9,677	181,491
Transfer from held-for-sale	94,144	-	94,144
Disposal	(33,173)	-	(33,173)
Revaluation gain	70,113	-	70,113
As at 31 December 2016	<u>2,114,502</u>	<u>9,857</u>	<u>2,124,359</u>
Balance as at 1 January 2015	444,506	984	445,490
Additions	68,252	180	68,432
Transfer from held-for-sale	972,739	-	972,739
Transfer to held-for-sale	-	(984)	(984)
Disposal	(11,838)	-	(11,838)
Revaluation gain	337,945	-	337,945
As at 31 December 2015	<u>1,811,604</u>	<u>180</u>	<u>1,811,784</u>

The carrying amount of investment property is the fair value of the property as determined by an independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and is reviewed by the Board of Directors on an annual basis. Fair values were determined based on open market value basis, significant assumption taken by the valuer are mentioned in note 29.

11. Properties held for sale

	Land and Completed Properties	Properties under construction	Total
Balance as at 1 January 2016	611,099	41,866	652,965
Addition	273,440	64,065	337,505
Transfer to investment properties	(94,144)	-	(94,144)
Disposal	(322,930)	(148)	(323,078)
As at 31 December 2016	<u>467,465</u>	<u>105,783</u>	<u>573,248</u>
Balance as at 1 January 2015	1,154,453	276,012	1,430,465
Addition	17,494	220,537	238,031
Transfer to investment properties	(972,739)	(18,257)	(990,996)
Transfer to completed properties	408,572	(408,572)	-
Disposal	-	(14,482)	(14,482)
Transfer others	3,319	(14,356)	(11,037)
Transfer from investment properties	-	984	984
As at 31 December 2015	<u>611,099</u>	<u>41,866</u>	<u>652,965</u>

12. Other assets

	<u>2016</u>	<u>2015</u>
Prepaid expenses and other advances	97,456	114,652
Profit receivable	145,473	178,819
Sundry debtors	211,131	75,173
Assets available for sale - murabaha assets	226,707	237,930
Others	65,115	37,937
Reimbursements under acceptances	<u>121,251</u>	<u>201,436</u>
	<u>867,133</u>	<u>845,947</u>

13. Property and equipment

	Freehold land & buildings	Equipment, furniture & fittings	Computer equipment	Motor vehicles	Capital - work in progress	Total
Cost – 2016						
As at 1 January 2016	961,276	125,920	56,054	5,572	38,587	1,187,409
Additions	732	2,238	4,547	960	11,924	20,401
Transfer to investment properties	-	-	-	-	-	-
Disposals	(2,001)	(2,228)	(20,495)	(243)	-	(24,967)
Capitalised	191	21	6,988	-	(7,200)	-
As at 31 December 2016	<u>960,198</u>	<u>125,951</u>	<u>47,094</u>	<u>6,289</u>	<u>43,311</u>	<u>1,182,843</u>
Accumulated depreciation – 2016						
As at 1 January 2016	112,889	91,102	38,656	3,874	-	246,521
Additions	12,396	10,369	8,106	733	-	31,604
Disposals	(2,001)	(2,134)	(20,212)	(214)	-	(24,561)
As at 31 December 2016	<u>123,284</u>	<u>99,337</u>	<u>26,550</u>	<u>4,393</u>	<u>-</u>	<u>253,564</u>
Net book value						
As at 31 December 2016	<u>836,914</u>	<u>26,614</u>	<u>20,544</u>	<u>1,896</u>	<u>43,311</u>	<u>929,279</u>
As at 31 December 2015	848,387	34,818	17,398	1,698	38,587	940,888

14. Customers' deposits

Current accounts	6,889,704	6,124,354
Saving accounts	2,149,884	1,947,213
Watany / call accounts	820,248	619,203
Time deposits	8,122,609	7,843,191
Margins	346,491	419,057
	<u>18,328,936</u>	<u>16,953,018</u>

15. Due to banks

Term deposit	3,839,327	2,040,349
On demand	11,633	6,023
	<u>3,850,960</u>	<u>2,046,372</u>

16. Sukuks payable					
Name of issuer	Maturity date	31 December 2016		31 December 2015	
		Carrying value	Profit rate	Carrying value	Profit rate
SIB Sukuk Company II Limited	25 May 2016	-	4.715%	1,468,637	4.715%
SIB Sukuk Company III Limited	15 April 2018	1,834,480	2.950%	1,832,999	2.950%
SIB Sukuk 2020	17 March 2020	1,833,259	2.843%	1,832,224	2.843%
SIB Sukuk 2021	8 September 2021	1,830,177	3.084%	-	-
Total		5,497,916		5,133,860	

On 8 September 2016, the Bank through a shari'a compliant sukuk Financing arrangement raised medium term finance amounting to AED 1.83 billion (US\$ 500 million). The sukuk is listed in Irish Stock Exchange and NASDAQ Dubai.

The terms of the arrangement includes the transfer of certain leased assets of the Bank on a co-ownership basis to the issuer. The assets are under control of the Bank and shall be continued to be serviced by the Bank.

The Issuer will pay the quarterly distribution amount from the returns received in respect of the leased assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to Sukuk holders on each quarterly distribution date. Upon expiry of this Sukuk the Bank has undertaken to repurchase the assets at the exercise price of US\$ 500 million.

17. Other liabilities

	2016	2015
Profit payable	104,772	71,067
Accrual and provision	12,242	17,929
Accounts payable	146,591	80,495
Provision for staff end of service benefits	56,747	55,142
Profit reserve	14,486	24,967
Managers' cheques	101,168	92,989
Obligations under acceptances	121,251	201,436
Sundry creditors	356,030	419,961
Others	2,454	2,709
	915,741	966,695

18. Share capital

The Bank's issued and fully paid up share capital comprises 2,425,500,000 shares of AED 1.0 each.

	2016		2015	
	No. of shares	Value	No. of shares	Value
Share capital	2,425,500,000	2,425,500	2,425,500,000	2,425,500

19. Proposed dividend

The Directors propose to the Shareholders a dividend of 10% bonus share – 1 bonus share for every 10 shares amounting to AED 242.6 million (2015: cash dividend of AED 242.6 million (AED 0.10 per share) for 2015).

20. Proposed directors' remuneration

In accordance with the Article 118 of Commercial Companies Law No. 8 of 1984, the proposed directors' remuneration of AED 5.3 million (2015: AED 5.3 million).

21. Reserves

In accordance with the Bank's Articles of Association and Article (82) of Union Law No. 10 of 1980, the Bank transfers 10% of annual profits, if any, to the legal reserve until it is equal to 50% of the share capital. Also, in accordance with bank's Articles of Association, 10% of annual profits, if any, were transferred to a statutory reserve until 2005, subsequent to which it was suspended by an ordinary general meeting upon a proposal by the Board of directors. The statutory reserve can be utilised for the purposes determined by the ordinary general meeting upon recommendations of the Board of Director.

The fair value reserve comprises the cumulative net change in fair values of financial assets through other comprehensive income.

The movements in reserves are as follows:

	Legal reserve	Statutory reserve	Fair value reserve
Balance at 1 January 2016	1,330,626	89,008	(31,867)
Transfer to reserve	-	-	53
Change in fair value of financial assets	-	-	2,322
Balance at 31 December 2016	1,330,626	89,008	(29,492)

22. Income from Islamic financing

	2016	2015
Income from international murabaha and wakala with financial institutions	38,400	25,716
Income from murabaha	242,857	255,472
Income from syndicate products	15,804	24,281
Income from ijara financing	527,355	503,513
Income from other Islamic financing products	13,963	2,894
	838,379	811,876

23. Investment, fees, commission and other income

Net fees and commissions	172,696	155,612
Net gains from dealing in foreign currencies	26,883	26,388
Income from investments securities	149,060	110,226
Income from sale of properties held-for-sale	218,568	10,808
Revaluation gains on investment properties	70,113	337,945
Rent income	26,933	19,935
Other operating income	959	2,709
	665,212	663,623

24. General and administrative expenses

Staff costs	346,005	315,890
Depreciation	31,604	33,128
Other general and administrative expenses	106,434	109,114
	484,043	458,132

25. Provision - net of recoveries

a) Provision on financing and ijarah receivables – net of recoveries

	2016	2015
Provision made during the year	(224,921)	(356,143)
Recoveries during the year	<u>27,171</u>	<u>7,663</u>
	<u>(197,750)</u>	<u>(348,480)</u>

b) Other provision – net of recoveries

Impairment provision – investment securities	(6,402)	-
Impairment provision – subsidiaries receivables	<u>(23,446)</u>	<u>(1,693)</u>
	<u>(29,848)</u>	<u>(1,693)</u>

c) Other recoveries

Other recoveries during the year	<u>93</u>	<u>178</u>
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Total provision - net of recoveries

	<u>(227,505)</u>	<u>(349,995)</u>
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26. Distribution to depositors:

The distribution of profit between depositor and shareholders is made in accordance with the methods approved by the Bank's Fatwa and Shari'a Supervisory Board effective from 1 July 2002. The Bank has adopted the "Common Pool Method" for distribution of profit between depositors and shareholders. The application of the above method resulted in:

Appropriation to depositors	210,463	121,197
Other adjustments	<u>(10,481)</u>	<u>(3,840)</u>
	<u>199,982</u>	<u>117,357</u>

27. Basic and diluted earnings per share

The calculation of earnings per share is based on earnings of AED 462.9 million (2015: AED 409.9 million) for the year divided by the number of shares outstanding during the year. There is no dilution impact on basic earnings per share.

28. Cash and cash equivalents

Cash and cash equivalents comprise of:

Cash and balances with banks and financial institutions	3,205,875	2,602,045
International murabaha and wakala arrangements with financial institutions	<u>2,947,035</u>	<u>3,005,364</u>
	6,152,910	5,607,409
Less cash reserves with CBUAE	<u>(1,461,602)</u>	<u>(1,308,370)</u>
Less due to banks with original maturity of less than 3 months	<u>(2,653,727)</u>	<u>(2,040,349)</u>
Cash and cash equivalents	<u>2,037,581</u>	<u>2,258,690</u>

28.1 Cash reserves with CBUAE are non-profit bearing and not available to fund day-to-day operations of the Bank.

29. Key accounting estimates, and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year and the resultant provisions and fair value. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

29. Key accounting estimates, and judgments in applying accounting policies (continued)

In particular, considerable judgment is required by management in respect of the following:

Impairment losses on financing and ijara receivables, amortised cost investments and other assets

The Group reviews its portfolios of financing receivables and ijarah receivable to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio within financing receivables and ijarah receivable before the decrease can be identified with an individual receivable in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss, experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment losses on investment securities

The Bank evaluates its investments securities individually for impairment based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation. Judgment is also exercised while reviewing factors indicating and determining the objective evidence of impairment in respect of investment securities.

Valuation of financial instruments

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

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

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

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

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation function, which is independent of front office management and reports to the Investment Committee, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

29. Key accounting estimates, and judgments in applying accounting policies (continued)**Valuation of financial instruments (continued)**

Specific controls include:

- verification of observable pricing;
- re-performance of model valuations ;
- a review and approval process for new models and changes to models involving valuation function;
- calibration and back-testing of models against observed market transactions at regular intervals;
- analysis and investigation of significant valuation movements; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by Investment Committee.

Significant valuation issues are reported to the Investment Committee.

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

	Note	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
31 December 2016					
Financial assets					
Investment securities - FVTPL	9	42,077	-	-	42,077
Investment securities – FVTOCI	9	979,510	-	100,234	1,079,744
Total		1,021,587	-	100,234	1,121,821
Non-financial assets					
Investment properties	10	-	-	2,124,359	2,124,359
31 December 2015					
Financial assets					
Investment securities - FVTPL	9	41,835	-	-	41,835
Investment securities – FVTOCI	9	665,433	-	200,155	865,588
Total		707,268	-	200,155	907,423
Non-financial assets					
Investment properties	10	-	-	1,811,784	1,811,784

During the year ended 31 December 2016 (31 December 2015: nil), there were no transfers of any financial asset in between any of the levels in fair value hierarchy.

29. Key accounting estimates, and judgments in applying accounting policies (continued)**Valuation of financial instruments (continued)**

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

Financial assets

	2016	2015
	FVOCI	FVOCI
Balance as at 1 January	200,155	102,899
Losses	(90)	(1,444)
Additions	-	99,831
Disposals	(99,831)	(1,131)
As at 31 December	<u>100,234</u>	<u>200,155</u>

Non-financial assets

Balance as at 1 January 2015	1,811,784	445,490
Additions	181,491	68,432
Transfer from held-for-sale	94,144	972,739
Transfer to held-for-sale	-	(984)
Disposal	(33,173)	(11,838)
Revaluation gain	70,113	337,945
As at 31 December 2015	<u>2,124,359</u>	<u>1,811,784</u>

Unobservable inputs used in measuring fair value

The investment banking department constantly monitors the progress of its investments by conducting its own valuation assessment along with information provided by the fund manager. Depending on the nature of the underlying asset, quantitative methods are used such as residual value, DCF/scenario analysis or comparable market valuation. Qualitative methods which involve taking into consideration the market & economic outlook are also employed.

The effect of unobservable input on fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions by 10% used to reasonably possible alternative assumptions would have the following effects.

	Effect on profit or loss		Effect on OCI	
	Favorable	Unfavorable	Favorable	Unfavorable
31 December 2016	212,435	(212,435)	10,023	(10,023)
	Effect on profit and loss		Effect on OCI	
	Favorable	Unfavorable	Favorable	Unfavorable
31 December 2015	181,178	(181,178)	20,016	(20,016)

29. Key accounting estimates, and judgments in applying accounting policies (continued)

Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value (amortised cost) and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised. Fair value hierarchy of financial instruments measured at fair value is as disclosed earlier in note 29.

31 December 2016	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
Financial assets					
Cash and balances with banks and financial institutions	-	3,205,875	-	3,205,875	3,205,875
International murabaha and wakalah with financial institutions	-	4,641,134	-	4,641,134	4,641,134
Financing receivables	-	-	5,513,912	5,513,912	5,513,912
Ijarah receivables	-	-	11,577,091	11,577,091	11,577,091
Investment securities measured at amortised cost	2,568,028	-	466,809	3,034,837	2,985,374
Other assets	-	534,732	-	534,732	534,732
Total	2,568,028	8,381,741	17,557,812	28,507,581	28,458,118
Financial Liabilities					
Customers' deposits	-	18,328,936	-	18,328,936	18,328,936
Due to banks	-	3,850,960	-	3,850,960	3,850,960
Sukuks payable	5,488,551	-	-	5,488,551	5,497,916
Other liabilities and zakat payable	-	1,005,170	-	1,005,170	1,005,170
Total	5,488,551	23,185,066	-	28,673,617	28,682,982
31 December 2015					
Financial assets					
Cash and balances with banks and financial institutions	-	2,602,045	-	2,602,045	2,602,045
International murabaha and wakalah with financial institutions	-	4,315,697	-	4,315,697	4,315,697
Financing receivables	-	-	5,735,334	5,735,334	5,735,334
Ijarah receivables	-	-	10,613,873	10,613,873	10,613,873
Investment securities measured at amortised cost	1,207,202	-	249,535	1,456,737	1,456,737
Other assets	-	484,675	-	484,675	484,675
Total	1,207,202	7,402,417	16,598,742	25,208,361	25,208,361
Financial Liabilities					
Customers' deposits	-	16,953,018	-	16,953,018	16,953,018
Due to banks	-	2,046,372	-	2,046,372	2,046,372
Sukuks payable	5,521,218	-	-	5,521,218	5,133,860
Other liabilities and zakat payable	-	1,045,042	-	1,045,042	1,045,042
Total	5,521,218	20,044,432	-	25,565,650	25,178,292

29. Key accounting estimates, and judgments in applying accounting policies (continued)**Financial instruments not measured at fair value (continued)**

For the purpose of above table, following assumptions have been taken:

1. In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to its fair value.
2. In respect of investments in sukuku measured at amortised cost, management has used the quoted price for disclosure of their fair values.
3. Financing to customers are fair valued based on discounted cash flow which takes into account original underlying cash borrower credit grading and expected prepayments. These features are used to estimate expected cash flows and discounted at risk-adjusted rates. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.
4. Fair values of customer deposits and due to banks is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

Valuation of investment property

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

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

The Group has taken the highest and best use fair values for the fair value measurement of its investment properties.

Valuation technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and fair value measurements
Investment method	<p>Expected market rental growth rate</p> <p>Risk adjusted discount rates</p> <p>Free hold property</p> <p>Free of covenants, third party rights and obligations</p> <p>Statutory and legal validity</p> <p>Condition of the property</p>	<p>The estimated fair value increase / decrease if:</p> <p>Expected market rental growth rate were higher or lower</p> <p>The risk adjusted discount rates were lower / higher</p> <p>The property is not free hold</p> <p>The property is subject to any covenants, rights and obligations</p> <p>The property is subject to any adverse legal notices / judgment</p> <p>The property is subject to any defect / damages</p>
Comparison method	<p>The Comparison approach involves examining and analysing recent market transaction/data and making adjustments to this data to account for differences in location, building area, quality of accommodation, finish, date of sale, view, aspect and other individual characteristics</p>	<p>The estimated fair value increase/decrease if the inputs to the comparison method varies.</p>

30. Segment reporting

The Bank's activities comprise the following main business segments:

a. Government and corporate

Within this business segment the Bank provides companies, institutions and government departments with a range of Islamic financial products and services. This includes exposure to high net worth individuals.

b. Retail

The retail segment provides a wide range of Islamic financial services to individuals.

c. Investment and treasury

This segment mainly includes wakalah deals with other financial institutions, investments securities, investment properties and other money market activities.

d. Hospitality and brokerage

The Bank through its subsidiaries SNH and SIFS provides hospitality and brokerage services respectively.



30. Segment reporting (continued)

For the year ended 31 December 2016:

Consolidated statement of income:

	Corporate and government	Retail	Investment and treasury	Hospitality and brokerage	Total
Income from Islamic financing	625,966	162,949	49,464	-	838,379
Profit expense on sukuks	-	-	(156,237)	-	(156,237)
Investments, fees, commission and other income	93,367	83,125	488,720	-	665,212
Income from subsidiaries	-	-	-	27,063	27,063
Total income	719,333	246,074	381,947	27,063	1,374,417
General and administrative expenses	(238,736)	(92,788)	(122,091)	(30,428)	(484,043)
Net operating income	480,597	153,286	259,856	(3,365)	890,374
Provisions- net of recoveries	(181,064)	(16,593)	(6,402)	(23,446)	(227,505)
Profit before distribution to depositors	299,533	136,693	253,454	(26,811)	662,869
Distribution to depositors	(156,727)	(26,757)	(16,498)	-	(199,982)
Profit for the year	142,806	109,936	236,956	(26,811)	462,887

As at 31 December 2016:

Consolidated statement of financial position:

Assets

Segment assets	15,997,829	1,709,246	14,693,426	656,447	33,056,948
Unallocated assets	-	-	-	-	482,278
Total assets	15,997,829	1,709,246	14,693,426	656,447	33,539,226

Liabilities

Segment liabilities	14,242,614	4,390,263	9,346,849	58,414	28,038,140
Unallocated liabilities	-	-	-	-	644,842
Total liabilities	14,242,614	4,390,263	9,346,849	58,414	28,682,982

For the year ended 31 December 2015:

Consolidated statement of income:

	Corporate and government	Retail	Investment and treasury	Hospitality and brokerage	Total
Income from murabaha and leasing	606,178	157,798	47,900	-	811,876
Profit expense on sukuks	-	-	(168,634)	-	(168,634)
Investments, fees, commission and other income	73,943	65,831	523,849	-	663,623
Income for subsidiaries	-	-	-	28,544	28,544
Total income	680,121	223,629	403,115	28,544	1,335,409
General and administrative expenses	(217,254)	(76,852)	(131,185)	(32,841)	(458,132)
Net operating income	462,867	146,777	271,930	(4,297)	877,277
Provisions- net of recoveries	(304,106)	(32,420)	(11,776)	(1,693)	(349,995)
Profit before distribution to depositors	158,761	114,357	260,154	(5,990)	527,282
Distribution to depositors	(91,973)	(15,702)	(9,682)	-	(117,357)
Profit for the year	66,788	98,655	250,472	(5,990)	409,925

As at 31 December 2015:

Consolidated statement of financial position:

Assets

Segment assets	13,646,666	2,628,574	12,282,595	669,085	29,226,920
Unallocated assets	-	-	-	-	655,773
Total assets	13,646,666	2,628,574	12,282,595	669,085	29,882,693

Liabilities

Segment liabilities	13,343,818	3,631,967	7,734,114	65,856	24,775,755
Unallocated liabilities	-	-	-	-	402,537
Total liabilities	13,343,818	3,631,967	7,734,114	65,856	25,178,292

(Currency: Thousands of U.A.E. Dirham)

30. Segment reporting (continued)

Assets 2016	Total	GCC	Other Arab Countries	North America	USA	Europe	Asia	Other
Cash and balances with banks and financial institutions	3,205,875	1,961,932	227	9,834	61,343	1,167,723	433	4,383
International murabaha and wakalah with financial institutions	4,641,134	4,548,361	73,460	-	-	19,313	-	-
Financing receivables	5,513,912	5,494,193	-	-	-	19,674	45	-
Ijarah receivables	11,577,091	11,542,334	34,757	-	-	-	-	-
Investments securities	4,107,195	3,225,561	-	-	-	382,842	471,104	27,688
Investment properties	2,124,359	2,124,359	-	-	-	-	-	-
Properties held for sale	573,248	573,248	-	-	-	-	-	-
Other assets	867,133	867,133	-	-	-	-	-	-
Property and equipment	929,279	929,279	-	-	-	-	-	-
Total assets	33,539,226	31,266,400	108,444	9,834	61,343	1,589,552	471,582	32,071
Liabilities 2016								
Customers' deposits	18,328,936	18,264,405	20,975	4	91	21,493	18,998	2,970
Due to banks	3,850,960	3,638,556	82	-	-	212,255	67	-
Sukuks payable	5,497,916	5,497,916	-	-	-	-	-	-
Other liabilities and zakat payable	1,005,170	1,005,170	-	-	-	-	-	-
Shareholders' Equity	4,856,244	4,856,244	-	-	-	-	-	-
Total liabilities and shareholder's equity	33,539,226	33,262,291	21,057	4	91	233,748	19,065	2,970
Contingent balances	1,678,864	1,676,873	551	-	-	1,440	-	-

(Currency: Thousands of U.A.E. Dirham)

30. Segment reporting (continued)

Assets 2015	Total	GCC	Other Arab Countries	North America	USA	Europe	Asia	Other
Cash and balances with banks and financial institutions	2,602,045	1,896,066	185	39,872	374,495	291,218	141	68
International murabaha and wakalah with financial institutions	4,315,697	4,132,047	-	-	-	183,650	-	-
Financing receivables	5,735,334	5,688,851	-	-	-	31,223	15,260	-
Ijara receivables	10,613,873	10,613,873	-	-	-	-	-	-
Investments securities	2,364,160	1,982,937	-	-	-	166,198	188,476	26,549
Investment properties	1,811,784	1,811,784	-	-	-	-	-	-
Properties held for sale	652,965	652,965	-	-	-	-	-	-
Other assets	845,947	845,947	-	-	-	-	-	-
Property and equipment	940,888	940,888	-	-	-	-	-	-
Total assets	29,882,693	28,565,358	185	39,872	374,495	672,289	203,877	26,617
Liabilities 2015								
Customers' deposits	16,953,018	16,923,184	9,323	-	56	11,382	8,491	582
Due to banks	2,046,372	2,045,102	-	-	574	-	696	-
Sukuks payable	5,133,860	5,133,860	-	-	-	-	-	-
Other liabilities and zakat payable	1,045,042	1,045,042	-	-	-	-	-	-
Shareholders' Equity	4,704,401	4,704,401	-	-	-	-	-	-
Total liabilities and shareholder's equity	29,882,693	29,851,589	9,323	-	630	11,382	9,187	582
Contingent balances	1,624,564	1,621,898	551	-	-	2,115	-	-

31. Contingencies and commitments

The Bank provides financial guarantees and letter of credit to meet the requirements of the Bank's customers. These agreements have fixed limits and expirations and are not concentrated in any period.

The amounts reflected for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

These contingent liabilities have off balance-sheet credit risk as only the related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

	<u>2016</u>	<u>2015</u>
a) Letter of credit - by sector:		
Corporate	144,438	202,089
Government	<u>7,671</u>	<u>14,164</u>
	<u>152,109</u>	<u>216,253</u>
b) Letter of guarantee – by sector:		
Banks	2,135	7,723
Corporate	1,364,851	1,237,847
Government	118	152
High net worth individual	18,436	17,939
Individual	8,344	9,624
Non-banking financial institution	<u>132,871</u>	<u>135,026</u>
	<u>1,526,755</u>	<u>1,408,311</u>
c) Capital commitments		
Property and equipment	5,978	4,551
Other real estate commitments	<u>100,920</u>	<u>70,130</u>
	<u>106,898</u>	<u>74,681</u>

Others

The Bank has also issued a financial guarantee of AED 5 million (2015: AED 5 million) to the Department of Economic Development against real estate leasing and management license for ASAS real estate.

In addition a financial guarantee of AED 230 million which comprises of AED 100 million issued to Abu Dhabi securities exchange, AED 100 million to Dubai Financial Market and AED 30 million to the Central Bank of UAE against conducting brokerage operations for Sharjah Islamic Financial Services (2015: AED 230 million).

The Bank receives legal claims against it arising in the normal course of business. The Bank considers none of these matters as material either individually or in aggregate. Where appropriate, the Bank recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation. The Bank seeks to comply with all applicable laws and regulations, but may be subject to regulatory actions and investigations from time to time, the outcome of which are generally difficult to predict and can be material.

32. Related parties

In the normal course of business, the Group enters into various transactions with enterprises and key management personnel which falls within the definition of related parties as defined in IAS 24. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director, executive or otherwise, of the Group. The related party transactions are executed at the terms agreed between the parties, which in opinion of the management are not significantly different from those that could have been obtained from third parties.

At the reporting date, such significant balances include:

	2016	2015
Government of Sharjah receivables	2,602,694	2,377,000
Government departments and authorities receivables	2,979,476	2,910,215
Other financing receivables and investing activities	766,317	821,097
Government of Sharjah deposits	64,034	51,849
Government department & authority deposits	2,505,771	2,007,947
Other deposits	136,019	562,141
Contingent liabilities (off balance sheet)	146,041	154,851
Income from Islamic financing	220,084	252,768
Depositors' share of profit	(25,552)	(13,505)

Key management compensation includes salaries and other short term benefits of AED 21.8 million in 2016 (2015: AED 20.3 million) and post-employment benefits of AED 1.5 million in 2016 (2015: AED 2.7 million).

No impairment loss has been recognised against balances outstanding with key management personnel and other related parties.

33. Social contributions

The Bank has made social contributions of AED 54.5 million (2015: AED 99.2 million) from zakat fund. Zakat fund is calculated in accordance with note 3(o).

The Bank during the year has also made a social contribution of AED 3.1 million (2015: AED 3.1 million) as donations and charities. These donations and charities are the amounts collected from the customers of the Bank as approved and defined by Bank's Fatwa and Shari'a Supervisory Board.

34. Fiduciary activities

During the year, Bank has liquidated the fund 'Tharwa Islamic Equity Portfolio' ("the fund"), through an approval dated 26 July 2016 from Securities and Commodities Authority. At 31 July 2016, the net asset value of fund was computed to AED 14.6 million (31 December 2015: AED 20.7 million). The Bank in its capacity as a portfolio agent of the fund distributed the net asset value computed as at 31 July 2016 to all the unit holders.

35. Comparatives figures

Certain prior year comparatives have been reclassified in order to conform to current year's presentation.