SHARJAH ISLAMIC BANK PJSC AND ITS SUBSIDIARIES

DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

SHARJAH ISLAMIC BANK PJSC
Directors' Report

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of SHARJAH ISLAMIC BANK PJSC ("the Bank") and its subsidiaries, together referred to as ("the Group") for the year ended 31 December 2017.

Financial Highlights

As at 31 December 2017, total assets of the Bank increased by AED 4.7 billion to reach AED 38.3 billion, an increase of 14.2%.

Financing and Ijarah receivables increased by 27% (AED 4.6 billion) to reach AED 21.7 billion and customer deposits increased by 21.8% (AED 3.9 billion) to reach AED 22.3 billion.

Net operating income for the Bank increased by 4.9%, to reach AED 933.8 million for 2017 as compared to AED 890.4 million in 2016.

Impairment provisions (collective and specific) – net of recoveries made in the year 2017 amounts to AED 148.8 million, a decrease of 34.6%.

Net profits of AED 477.7 million is recorded for year ended 31 December 2017 compared to AED 462.9 million for the corresponding prior year, an increase of 3.2%.

The Directors propose a cash dividend of 8% of the paid up capital amounting to AED 234.8 million (2016 : 10% bonus share of the paid up capital – 1 bonus share for every 10 shares amounting to AED 242.6 million) whereas proposed Directors' fees for the year ended 31 December 2017 amounts to AED 5.3 million (2016 : 5.3 million).

Auditors:-

KPMG were appointed as auditors of the Group for the year 2017 at the Annual General Meeting held on 11 March 2017.

Abdul Rahman Mohammed Nasser Al Owais
Chairman
13 January 2018

KPMG Lower Gulf Limited
2002, Al Batha Tower
Buhaira Corniche, Sharjah, UAE
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Independent Auditors' Report

To the Shareholders of Sharjah Islamic Bank P.J.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional 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 (ii) (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 Financing and Ijarah receivables and the viability of future cash flows of corporate Financing and Ijarah receivables 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 financing and ijarah receivables, 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 Financing and Ijarah receivables 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 collateral valuations for assessing the appropriateness of the collateral values held by the Bank.

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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 Financing and Ijarah receivable is impaired and assessed the reasonableness using our understanding of the Group's Financing and Ijarah 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 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 as 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 for the year.

Key Audit Matters (continued)

Valuation of investment properties and properties held-for-sale (continued)

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 selected samples, 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;

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

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

Other information

Management is responsible for the other information. The other information comprises the Directors' report, which we obtained prior to the date of this auditors' report, and the Chairman's statement, Management review, Financial review, Summary of key figures and performance ratios, Fatwa and Sharia Supervisory Board report ("the Reports") which are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 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:

- 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.

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

- 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.

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

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Report on Other Legal and Regulatory Requirements

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

- we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Group has maintained proper books of account;
- the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- as disclosed in note 9.1 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2017;
- note 32 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Articles of Associations, which would materially affect its activities or its consolidated financial position as at 31 December 2017; and
- note 33 to the consolidated financial statements discloses the social contributions made during the year.

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

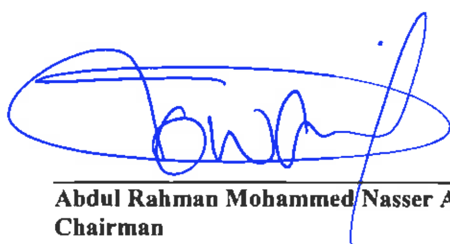
KPMG Lower Gulf Limited

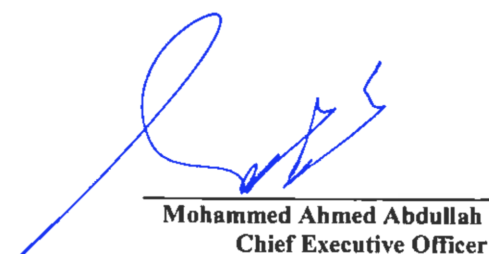
Vijendra Nath Malhotra
Registered Auditor Number: 48
Dubai, United Arab Emirates
Date: 14 JAN 2018

SHARJAH ISLAMIC BANK PJSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(Currency: Thousands of U.A.E. Dirham)

	Notes	2017	2016
Assets			
Cash and balances with banks and financial institutions	5	**3,103,111**	3,205,875
International murabaha and wakalah with financial institutions	6	**3,925,490**	4,641,134
Financing receivables	7	**7,894,531**	5,513,912
Ijarah receivables	8	**13,812,844**	11,577,091
Investment securities	9	**5,034,137**	4,107,195
Investment properties	10	**2,167,763**	2,124,359
Properties held-for-sale	11	**568,078**	573,248
Other assets	12	**923,264**	867,133
Property and equipment	13	**859,301**	929,279
Total assets		**38,288,519**	**33,539,226**
Liabilities			
Customers' deposits	14	**22,318,523**	18,328,936
Due to banks	15	**4,076,241**	3,850,960
Sukuks payable	16	**5,501,743**	5,497,916
Other liabilities	17	**808,838**	915,741
Zakat payable		**63,894**	89,429
Total liabilities		**32,769,239**	**28,682,982**
Shareholders' equity			
Share capital	18	**2,934,855**	2,425,500
Legal reserve	21	**1,377,902**	1,330,626
Statutory reserve	21	**89,008**	89,008
Fair value reserve	21	**(39,488)**	(29,492)
Retained earnings		**1,157,003**	1,040,602
Total shareholders' equity		**5,519,280**	**4,856,244**
Total liabilities and shareholders' equity		**38,288,519**	**33,539,226**

The consolidated financial statements were authorised for issue in accordance with a resolution of Directors on 13 January 2018 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 9.

SHARJAH ISLAMIC BANK PJSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Currency: Thousands of U.A.E. Dirham)

	Notes	2017	2016
Income from Islamic financing	22	**1,111,007**	838,379
Profit expense on sukuks		**(167,763)**	(156,237)
Investment, fees, commission and other income	23	**516,226**	665,212
Income from subsidiaries		**30,585**	27,063
Total income		**1,490,055**	**1,374,417**
General and administrative expenses	24	**(556,240)**	(484,043)
Net operating income		**933,815**	**890,374**
Provisions - net of recoveries	25	**(148,817)**	**(227,505)**
Profit before distribution to depositors		**784,998**	**662,869**
Distribution to depositors	26	**(307,324)**	(199,982)
Profit for the year (Attributable to the equity holders of the Bank)		**477,674**	**462,887**
Earnings per share (U.A.E. Dirham)	27	**0.18**	**0.17**

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 to 9.

SHARJAH ISLAMIC BANK PJSC AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPERHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

	2017	2016
Profit for the year		
(Attributable to the equity holders of the Bank)	**477,674**	462,887
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in fair value reserve on investments classified at FVTOCI	**(12,299)**	2,322
Total comprehensive income for the year		
(Attributable to the equity holders of the Bank)	**465,375**	**465,209**

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 to 9.

SHARJAH ISLAMIC BANK PJSC AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	2017	2016
Cash flows from operating activities:			
Profit for the year		**477,674**	**462,887**
Adjustments:			
Depreciation	13	**41,630**	31,604
Amortisation of sukuks issuance cost		**3,827**	4,362
Provision on financing and ijarah receivables	25	**153,743**	197,750
(Recoveries) / Provision on subsidiaries receivables	25	**(4,926)**	23,446
Provision for impairment on investment securities	25	**-**	6,402
Gain on disposal of properties held-for-sale		**(23,450)**	(225,515)
Revaluation gain on investment properties	10	**(6,284)**	(70,113)
Impairment loss on properties held-for-sale	11	**2,124**	-
Loss on disposal of investment properties		**-**	313
Gain on disposal of property and equipment		**(214)**	(101)
Operating profit before changes in operating assets and liabilities		**644,124**	**431,035**
Changes in:			
Reserve with UAE Central Bank		**(266,316)**	(153,232)
International murabaha and wakalah with financial institution		**1,088,054**	(383,766)
Financing and ijarah receivables		**(4,770,115)**	(939,546)
Other assets		**(51,205)**	(44,632)
Customers' deposits		**3,989,587**	1,375,918
Due to banks		**359,400**	1,191,054
Zakat paid		**(89,429)**	(54,484)
Other liabilities		**(112,153)**	(56,204)
Net cash from operating activities		**791,947**	**1,366,143**
Cash flows from investing activities:			
Acquisition of property and equipment		**(49,990)**	(20,401)
Disposal of property and equipment		**542**	507
Acquisition of investment properties		**(32,850)**	(181,491)
Disposal of investment properties		**56,406**	32,860
Acquisition of properties held for sale		**(57,337)**	(337,505)
Disposal of properties held for sale		**101,167**	548,593
Investment securities, net		(939,241)	(1,747,115)
Net cash used in investing activities		**(921,303)**	**(1,704,552)**
Cash flows from financing activities:			
Proceeds from issuance of convertible sukuk	18	**266,805**	-
Proceeds from Sukuk repayment / issuance, net		**-**	359,694
Cash dividends	19	**-**	(242,550)
Net cash from financing activities		**266,805**	**117,144**
Net increase / (decrease) in cash and cash equivalents		**137,449**	**(221,265)**
Cash and cash equivalents, beginning of the year	28	**2,037,425**	2,258,690
Cash and cash equivalents, end of the year	28	**2,174,874**	**2,037,425**

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 to 9.

SHARJAH ISLAMIC BANK PJSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(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 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
Realized loss on Financial assets through OCI transferred to retained earning	-	-	-	53	(53)	-
Total comprehensive income for the year	-	-	-	**2,375**	**462,834**	**465,209**
Transactions with owners recorded directly in equity						
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	-	-	-	-	**(313,366)**	**(313,366)**
As at 31 December 2016	2,425,500	1,330,626	89,008	(29,492)	1,040,602	**4,856,244**
As at 1 January 2017	**2,425,500**	**1,330,626**	**89,008**	**(29,492)**	**1,040,602**	**4,856,244**
Total comprehensive income for the year						
Profit for the year	-	-	-	-	**477,674**	**477,674**
Other comprehensive income						
Net change in fair value reserve	-	-	-	**(12,299)**	-	**(12,299)**
Realized loss on Financial assets through OCI transferred to retained earning	-	-	-	**2,303**	**(2,303)**	-
Total comprehensive income for the year	-	-	-	**(9,996)**	**475,371**	**465,375**
Transactions with owners recorded directly in equity						
Issuance of bonus shares	**242,550**	-	-	-	**(242,550)**	-
Conversion of sukuk *(note 18)*	**266,805**	-	-	-	-	**266,805**
Transfer to legal reserves *(note 21)*	-	**47,276**	-		**(47,276)**	-
Zakat	-	-	-	-	**(63,894)**	**(63,894)**
Board of directors' fees *(note 20)*	-	-	-	-	**(5,250)**	**(5,250)**
Total transactions with owners	**509,355**	**47,276**	-	-	**(358,970)**	**197,661**
As at 31 December 2017	**2,934,855**	**1,377,902**	89,008	(39,488)	1,157,003	**5,519,280**

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 to 9.

1. Legal status and activities

SHARJAH ISLAMIC BANK PJSC ("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 (2016 : 32 branches) established in United Arab Emirates.

The consolidated financial statements of the Group comprises 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 No. 2 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 recongnised 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, 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(y). 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 Bank and entities controlled by the Bank. Control is achieved when the Bank 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 Bank. The Bank '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 Bank gains control until the date when the Bank ceases to control the subsidiary.

ii) Loss of control

When the Bank losses 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 Bank controls the special purpose entity.

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, instead reclassified to retained earnings.

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 or FVOCI. In addition, financial assets that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. Financial assets may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis.

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

Dividend income on investments in equity instruments at FVTPL or FVOCI 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, 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 and Ijara receivables, measured at amortised cost, is assessed by the Group as follows:

Individually assessed financing receivables and ijara financing

Financing and ijara receivables 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 in the consolidated statement of profit or loss 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 and Ijara 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.

d. 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 in case of change in use.

e. 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.

f. 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)

g. Other assets

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

h. 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.

i. 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.

j. 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.

k. 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.

l. 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.

m. 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)

n. 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.

o. 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.

p. 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)

p. 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.

q. 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.

r. 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.

s. 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.

t. 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)

u. 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.

v. Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and 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.

w. 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.

x. 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)

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

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

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

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

z. Standards and interpretation issued and not yet effective for accounting periods beginning after 1 January 2017

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below.

i. IFRS 9 Financial instruments

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

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

Classification and measurement

The Group has already adopted the classification requirements of IFRS 9 in 2012 and as such there will be no material impact on opening equity as at 1st January 2018 on account of changes in classification requirements of IFRS 9", except for the classification of sukuk instrument. A sukuk instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

i. the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
ii. 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.

Impairment

The adoption of IFRS 9 will have a significant impact on the Bank's impairment methodology. The IFRS 9 expected credit loss (ECL) model is forward-looking compared to the current incurred loss approach. Expected credit losses reflect the present value of all cash shortfalls related to default events either:

i. Over the following twelve months, or
ii. Over the expected life of a financial instrument depending on credit migration from inception. ECL should reflect an unbiased, probability-weighted outcome as opposed to the single best estimate allowed under the current approach. The probability-weighted outcome considers multiple scenarios based on reasonable forecasts.

IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Bank has developed new methodologies and models taking into account the relative size, quality and complexity of the portfolios. The Bank is at the stage of testing the statistical models to analyse the data collected and generate estimates of the remaining lifetime PD and how these are expected to change as a result of the passage of time considering macro-economic scenarios.

3. Summary of significant accounting policies (continued)

z. Standards and interpretation issued and not yet effective for accounting periods beginning after 1 January 2017 (continued)

i. IFRS 9 Financial instruments

Impairment (continued)

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

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

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

Stage 3 – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.
Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgement are:

Assessment of Significant Increase in Credit Risk

Under IFRS 9, when determining whether the credit risk (i.e., risk of default) on a financial instrument has increased significantly since the initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

i. the remaining lifetime PD as at the reporting date; with
ii. the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant.

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

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

Macroeconomic factors and FLI are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. Based on advice from the Risk Management Department and external economic experts and consideration of a variety of external actual and forecast information, the Bank will formulate a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios, which shall in turn be probability weighted to determine ECL.

Expected Life

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

3. Summary of significant accounting policies (continued)

z. Standards and interpretation issued and not yet effective for accounting periods beginning after 1 January 2017 (continued)

i. IFRS 9 Financial instruments

Impairment (continued)

Experienced credit judgment

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

Definition of Default and Write-off

Default definition followed by the Bank for impairment assessment remains in line with the guidelines of IFRS 9, without any recourse to the assumptions. IFRS 9 presumption of default is currently under internal review and might differ for the actual results subsequently where a reasonable justification exists to rebut the presumption. Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The policy on the write-off of loans remains unchanged.

Modified Financial Assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value.

If the expected modification will not result in the derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

Transition impact assessment

The Bank will record an adjustment to its opening 1 January, 2018 retained earnings, to reflect the application of the new requirements of Impairment at the adoption date and will not restate comparative periods. The Bank estimates the IFRS 9 transition amount impact on shareholders' equity should approximately be in between 14% - 18% of the total retained earnings as at 1 January, 2018. The estimated impact relates primarily to the implementation of the ECL requirements. This assessment is preliminary because not all transition work has been finalized. The Bank continues to revise, refine and validate the impairment models and related process controls leading up to the 31 March, 2018 reporting. The actual impacts of adopting the standards at 1 January 2018 may change because:

i. the Group is in the process of testing and assessment of controls over its new IT systems and changes over its governance framework; and
ii. the new accounting and credit policies are subject to change until the Group presents its first financial statements that include the date of initial application.

ii. Revenue from contracts with customers

IFRS 15 is effective for annual periods beginning on or after 1January 2018, with early adoption permitted. 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 Programmes.

The Group has completed an initial review of the potential impact of the adoption of IFRS 15 on its consolidated financial statements. This focused on a review of fees and commission income mainly. The initial review indicates that IFRS 15 will not have a material impact on the timing of recognition or measurement of fees and commission income.

3. Summary of significant accounting policies (continued)

z. Standards and interpretation issued and not yet effective for accounting periods beginning after 1 January 2017 (continued)

iii. IAS 40 Investment properties

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

iv. IFRS 16 Leases

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

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 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.

4. Risk management (continued)

i. Risk management framework (continued)

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.

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.

4. Risk management (continued)

i. Risk management framework (continued)

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.

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.

4. Risk management (continued)

i. Risk management framework (continued)

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.

Governance and project management of IFRS 9

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

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 (except prepayments and assets available for sale) and sukuks. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposures into different sectors.

4. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

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.

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	
	2017	**2016**
Cash and balances with banks and financial institutions	**744,830**	1,249,877
International murabaha and wakalah with financial institutions	**3,125,490**	3,841,134
Financing receivables	**7,894,531**	5,513,912
Ijarah receivable	**13,812,844**	11,577,091
Investment securities	**3,917,926**	3,052,674
Other assets	**569,133**	534,732
	30,064,754	**25,769,420**
Contingent liabilities	**2,210,520**	1,678,864
Total	**32,275,274**	**27,448,284**

Past due but not impaired financial assets

Financial assets that are 'past due but not impaired' are those for which contractual profit receivables 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 financial 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 and Ijara 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.

4. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

Financial assets with renegotiated terms

For the purposes of disclosures in these financial statements, 'financing and Ijara receivable with renegotiated terms' are defined as financing and Ijara 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 and Ijara 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.

Credit quality analysis

	Banks and financial institutions	Financing and ijara receivables	Investment securities	Other assets	Total on balance sheet	Contingent liabilities	Total credit exposure
2017							
Individually impaired							
Substandard	-	200,275	-	-	200,275	-	200,275
Doubtful	-	312,516	25,607	-	338,123	-	338,123
Loss	-	665,187	-	82,165	747,352	-	747,352
Total	-	1,177,978	25,607	82,165	1,285,750	-	1,285,750
Past due but not impaired	-	84,283	-	-	84,283	-	84,283
Neither past due nor impaired	3,870,320	21,620,967	3,911,524	543,002	29,945,813	2,210,520	32,156,333
Total maximum exposure	3,870,320	22,883,228	3,937,131	625,167	31,315,846	2,210,520	33,526,366
Profit in suspense	-	(45,418)	-	-	(45,418)	-	(45,418)
Specific allowance for impairment	-	(755,431)	(19,205)	(56,034)	(830,670)	-	(830,670)
Collective allowance for impairment	-	(375,004)	-	-	(375,004)	-	(375,004)
Carrying amount	3,870,320	21,707,375	3,917,926	569,133	30,064,754	2,210,520	32,275,274

	Banks and financial institutions	Financing and ijara receivables	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	-	94,979	223,131	-	223,131
Total	-	1,092,192	25,607	94,979	1,212,778	-	1,212,778
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	505,787	25,540,068	1,678,864	27,218,932
Total maximum exposure	5,091,011	18,184,539	3,071,879	600,766	26,948,195	1,678,864	28,627,059
Profit in suspense	-	(79,061)	-	-	(79,061)	-	(79,061)
Specific allowance for impairment	-	(689,971)	(19,205)	(66,034)	(775,210)	-	(775,210)
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

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 receivables 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 and ijara receivables 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**	
	2017	2016	**2017**	2016	**2017**	2016
Mortgage of properties	**9,554,982**	6,064,796	**84,283**	116,830	**408,982**	541,220
Listed shares	-	-	-	-	-	-
Cash lien and others	32,867	120,780	-	13,580	-	-
Carrying amount	**9,587,849**	6,185,576	**84,283**	130,410	**408,982**	541,220

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 2017	**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	**3,103,111**	**-**	**-**	**-**	**3,103,111**
International murabaha and wakalah with financial institutions	**3,319,445**	**312,205**	**293,840**	**-**	**3,925,490**
Financing receivables	**1,203,765**	**1,019,730**	**3,563,707**	**2,107,329**	**7,894,531**
Ijarah receivables	**491,705**	**2,157,011**	**7,116,539**	**4,047,589**	**13,812,844**
Investments securities	**430,437**	**245,344**	**3,118,082**	**1,240,274**	**5,034,137**
Other assets	**487,754**	81,379	**-**	**-**	**569,133**
	9,036,217	**3,815,669**	**14,092,168**	**7,395,192**	**34,339,246**
Liabilities					
Customers' deposits	**17,784,124**	**4,534,399**	**-**	**-**	**22,318,523**
Due to banks	**2,523,341**	**-**	**1,552,900**	**-**	**4,076,241**
Sukuks payable	**-**	**1,835,962**	**3,665,781**	**-**	**5,501,743**
Other liabilities	**672,572**	69,442	4,613	**-**	**746,627**
	20,980,037	6,439,803	5,223,294	**-**	**32,643,134**
Contingent liabilities	**4,495**	**182,571**	**1,770,950**	**252,504**	**2,210,520**
31 December 2016					
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 receivables	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	648,314	145,114	65,566	-	**858,994**
	18,866,268	**2,921,456**	**6,749,082**	**-**	**28,536,806**
Contingent liabilities	**393,980**	749,833	534,442	**609**	**1,678,864**

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 which is 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 net income	
	Increase / decrease in basis point	**2017**	2016
Profit rate sensitivity on financial assets and liabilities	50 basis points	**19,542**	**13,766**

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	2017	2016
US dollar	**(1,543,278)**	(1,082,730)
UK Sterling	**39,888**	34,342
Euro	**(7,498)**	90
Bahrani Dinar	**7,399**	7,343
Saudi Riyals	**(4,397)**	1,292
Kuwaiti Dinar	**(1,023)**	20,512

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 ±10% on statement of profit or loss and other comprehensive income of the Group.

	2017		2016	
	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	**4,932**	-	1,262	-
Financial assets at fair value through other comprehensive income	-	**106,689**	-	107,974

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, legal and statutory reserve and retained earnings
- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on financial assets classified as 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	
	2017	2016
Tier 1 capital		
Ordinary share capital	**2,934,855**	2,425,500
Retained earnings	**1,134,084**	1,019,741
Statutory reserve	**89,008**	89,008
Legal Reserve	**1,377,902**	1,330,626
Total tier 1 capital base	**5,535,849**	**4,864,875**
Tier 2 capital		
Fair value reserve	**(39,488)**	(29,492)
Collective impairment provisions	**312,240**	270,002
Total tier 2 capital base	**272,752**	**240,510**
Total capital base	**5,808,601**	**5,105,385**
Risk weighted assets		
Credit risk	**24,979,172**	21,600,139
Market risk	**263,612**	155,621
Operational risk	**2,235,023**	2,152,438
Risk weighted assets	**27,477,806**	**23,908,198**
Tier 1 ratio	**20.15%**	20.35%
Capital adequacy ratio	**21.14%**	21.35%

4. Risk management (continued)

ii. Financial risk management (continued)

e. Capital management

Asset classes	31 December 2017				
	Gross outstanding	Exposure before CRM	CRM	Net exposure after credit conversion	Risk weighted assets
Claims on sovereigns	9,192,491	9,192,491	-	9,192,491	670,614
Claims on non-commercial public sector	1,149,857	1,149,857	-	1,149,857	-
Claims on banks	5,488,473	5,488,473	-	5,487,569	1,582,469
Claims on corporate and government	10,711,185	10,711,182	(32,867)	9,694,880	9,662,013
Claims included in the regulatory retail portfolio	7,703,191	7,703,076	-	7,693,153	7,061,906
Claims secured by residential property	859,470	859,417	-	859,417	660,378
Claims secured by commercial real estate	126,137	126,137	-	126,137	126,137
Past due loans	1,262,261	431,449	-	430,626	526,618
Higher-risk categories	10,863	10,863	-	10,863	16,295
Other assets	5,175,183	5,175,183	-	5,174,715	4,672,742
Total claims	41,679,111	40,848,128	(32,867)	39,819,708	24,979,172

Asset classes	31 December 2016				
	Gross outstanding	Exposure before CRM	CRM	Net exposure after credit conversion	Risk weighted assets
Claims on sovereigns	7,462,038	7,462,038	-	7,462,038	720,868
Claims on non-commercial public sector	780,930	780,930	-	780,930	-
Claims on banks	6,506,005	6,506,005	-	6,499,770	1,828,746
Claims on corporate and government	9,303,620	9,303,620	(118,844)	8,449,024	8,449,024
Claims included in the regulatory retail portfolio	5,387,525	5,387,525	(1,927)	5,385,598	4,905,579
Claims secured by residential property	514,330	514,330	-	514,330	391,807
Claims secured by commercial real estate	171,511	171,511	-	171,511	171,511
Past due loans	1,283,663	486,053	(13,580)	472,473	583,231
Higher-risk categories	10,565	10,565	-	10,565	15,847
Other assets	4,896,849	4,896,849	(9)	4,896,849	4,533,526
Total claims	36,317,036	35,519,426	(134,360)	34,643,088	21,600,139

Risk weights for market risk

Capital requirement for market risk is calculated using the standardised approach. The capital requirement for market risk is analysed into capital requirement for profit rate risk, equity risk, foreign exchange risk.

A summary of the capital requirement for market risk under standardised approach under Basel II is set out below:

	2017	2016
Equity position risk	25,063	10,097
Foreign currency risk	6,570	8,576
	31,633	18,673

4. Risk management (continued)

ii. Financial risk management (continued)

e. Capital management

Risk weight for operational risk

The capital requirement for operation risk is calculated using the basic indicator approach. The total capital requirement is calculated as 15% of last three years average income which amounts to AED 268.3 million *(2016: AED 258.3 million)*

5. Cash and balances with banks and financial institutions

		2017	2016
Cash		**449,397**	375,574
Statutory deposit with CBUAE		**1,727,918**	1,461,602
Due from banks	*5.1*	**925,796**	1,368,699
		3,103,111	**3,205,875**

5.1 Due from banks includes current account balance with CBUAE amounting AED 181 million *(2016: 118 million).*

6. International murabaha and wakalah with financial institutions

		2017	2016
International murabaha		**91,968**	370,993
Wakala arrangements	*6.1*	**3,833,522**	4,270,141
		3,925,490	**4,641,134**

6.1 Wakala arrangements with financial institutions includes Islamic certificate of deposits with CBUAE amounting AED 800 million *(2016: 800 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

	2017	2016
Vehicle murabaha	**314,748**	344,321
Goods murabaha	**6,052,492**	3,888,923
Real estate murabaha	**169,318**	240,785
Other murabaha receivables	**331,976**	295,046
Syndicate murabaha	**790,552**	668,232
Syndicate musharaka	**-**	150,000
Qard hasan	**517,619**	626,173
Credit card receivables	**54,629**	38,887
Istisna	**1,214,574**	421,930
Deferred profit	**(683,936)**	(413,674)
Provision for impaired financing receivables	**(867,441)**	(746,711)
	7,894,531	**5,513,912**

7. Financing receivables (continued)

b) By sector

	2017	2016
Government departments and authorities	**1,318,079**	393,948
Construction	**365,846**	233,662
Manufacturing	**349,272**	272,971
Transportation	**307,034**	274,660
Real estate	**1,100,632**	353,073
Trading	**736,452**	757,718
Financial institutions	**166,979**	165,998
Other services	**204,204**	686,051
Individual	**2,505,586**	1,911,161
High net worth individuals	**2,381,974**	1,612,119
Others	**9,850**	12,936
Deferred profit	**(683,936)**	(413,674)
Provision for impaired financing receivables	**(867,441)**	(746,711)
	7,894,531	**5,513,912**

c) Impairment provision for financing receivables

	2017	2016
Balance, beginning of the year	**746,711**	647,728
Written off during the year	**(23,304)**	(63,631)
Additional provision for the year	**172,000**	179,490
Recoveries during the year	**(27,966)**	(16,876)
	867,441	**746,711**

8. Ijara receivables

Ijara receivables are finance leases, which comprise the following:

a) Net investment in Ijara receivables

	2017	2016
Gross investment	**14,075,838**	11,844,855
Provision for impaired ijara receivables	**(262,994)**	(267,764)
	13,812,844	**11,577,091**

b) By sector

	2017	2016
Government departments and authorities	**6,101,875**	5,429,543
Construction	**218,962**	252,171
Manufacturing	**267,795**	248,097
Transportation	**188,320**	148,467
Real estate	**1,907,348**	1,539,845
Trading	**216,048**	185,781
Financial institutions	**5,111**	31,389
Other Services	**376,286**	492,297
Individual	**1,214,413**	559,089
High net worth individuals	**3,579,680**	2,958,176
Provision for impaired ijara receivables	**(262,994)**	(267,764)
	13,812,844	**11,577,091**

c) Impairment provision for ijara receivables

	2017	2016
Balance, beginning of the year	**267,764**	236,001
Written off during the year	**(15,108)**	(3,373)
Additional provision for the year	**81,847**	45,431
Recoveries during the year	**(71,509)**	(10,295)
	262,994	**267,764**

9. Investment securities

	2017	2016
Financial assets at fair value through profit or loss	**104,434**	42,077
Financial assets at fair value through other comprehensive income	**1,066,889**	1,079,744
Financial assets measured at amortised cost	**3,862,814**	2,985,374
	5,034,137	**4,107,195**
Investment securities – by category		
Debt securities	**3,917,926**	3,014,836
Equities and funds	**1,116,211**	1,092,359
	5,034,137	**4,107,195**
Investments securities – by quoted / unquoted		
- Financial assets at fair value through profit or loss		
Quoted	**67,704**	42,077
Unquoted	**36,730**	-
	104,434	**42,077**
-Financial assets at fair value through other comprehensive income		
Quoted	**909,777**	979,510
Unquoted	**157,112**	100,234
	1,066,889	1,079,744
- Financial assets measured at amortised cost		
Quoted	**3,231,815**	2,518,565
Unquoted	**630,999**	466,809
	3,862,814	**2,985,374**

9.1 The Bank has purchased equity investments worth AED 102.8 million during the year ended 31 December 2017 *(2016: 220.4 million)*. Equity investments purchased during the year have been classified under fair value through profit or loss and fair value through other comprehensive income.

10. Investment properties

	2017	2016
Balance at the beginning of the year	**2,124,359**	1,811,784
Additions	**32,850**	181,491
Transfer from held-for-sale	**77,372**	94,144
Transfer to property and equipment	**(16,696)**	-
Disposal	**(56,406)**	(33,173)
Revaluation gain	**6,284**	70,113
Balance at the end of the year	2,167,763	**2,124,359**

The carrying amount of the investment properties is the fair value of the properties 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

	2017	2016
Balance at the beginning of the year	**573,248**	652,965
Addition	**57,337**	337,505
Transfer from property and equipment	**94,706**	-
Transfer to investment properties	**(77,372)**	(94,144)
Disposal	**(77,717)**	(323,078)
Impairment loss	**(2,124)**	-
Balance at the end of the year	**568,078**	**573,248**

12. Other assets

	2017	2016
Prepaid expenses and other advances	**181,327**	105,694
Profit receivable	**223,771**	145,473
Sundry debtors	**134,318**	211,131
Assets available for sale - murabaha assets	**172,804**	226,707
Others	**55,747**	56,877
Reimbursements under acceptances	**155,297**	121,251
	923,264	867,133

13. Property and equipment

	Freehold land & buildings	Equipment, furniture & fittings	Computer equipment	Motor vehicles	Capital - work in progress	Total
Cost – 2017						
As at 1 January 2017	**960,198**	**125,951**	**47,094**	**6,289**	**43,311**	**1,182,843**
Additions	**2,934**	**5,253**	**8,928**	**1,140**	**31,735**	**49,990**
Transfer from investment properties	**16,696**	-	-	-	-	**16,696**
Transfer to properties held for sale	**(95,524)**	-	-	-	-	**(95,524)**
Disposals	**(217)**	**(3,490)**	**(6,302)**	**(1,696)**	-	**(11,705)**
Capitalised	**1,607**	**274**	**56,601**	-	**(58,482)**	-
As at 31 December 2017	885,694	127,988	106,321	5,733	16,564	**1,142,300**
Accumulated depreciation – 2017						
As at 1 January 2017	**123,284**	**99,337**	**26,550**	**4,393**	-	**253,564**
Charge for the year	**12,409**	**9,893**	**18,168**	**1,160**	-	**41,630**
Disposals	(1,035)	(3,487)	(6,027)	(1,646)	-	**(12,195)**
As at 31 December 2017	134,658	105,743	38,691	3,907	-	**282,999**
Net book value						
As at 31 December 2017	**751,036**	**22,245**	**67,630**	**1,826**	**16,564**	**859,301**
As at 31 December 2016	836,914	26,614	20,544	1,896	43,311	929,279

14. Customers' deposits

	2017	2016
Current accounts	**8,103,493**	6,889,704
Saving accounts	**2,298,304**	2,149,884
Watany / call accounts	**799,286**	820,248
Time deposits	**10,661,125**	8,122,609
Margins	**456,315**	346,491
	22,318,523	**18,328,936**

15. Due to banks

	2017	2016
Term deposit	**4,072,188**	3,839,327
On demand	**4,053**	11,633
	4,076,241	**3,850,960**

16. Sukuks payable

Name of issuer	Maturity date	31 December 2017		31 December 2016	
		Carrying value	Profit rate	Carrying value	Profit rate
SIB Sukuk Company III Limited	15 April 2018	**1,835,962**	2.950%	1,834,480	2.950%
SIB Sukuk 2020	17 March 2020	**1,834,268**	2.843%	1,833,259	2.843%
SIB Sukuk 2021	8 September 2021	**1,831,513**	3.084%	1,830,177	3.084%
Total		**5,501,743**		**5,497,916**	

17. Other liabilities

	2017	2016
Profit payable	**157,412**	104,772
Accrual and provision	**16,379**	12,242
Accounts payable	**92,613**	146,591
Provision for staff end of service benefits	**62,211**	56,747
Profit reserve	**16,811**	14,486
Managers' cheques	**65,084**	101,168
Obligations under acceptances	**155,297**	121,251
Sundry creditors	**243,031**	358,484
	808,838	915,741

18. Share capital

The Bank's issued and fully paid up share capital comprises 2,934,855,000 (*2016: 2,425,500,000*) shares of AED 1 each.

Balance at the beginning of the year	**2,425,500**	2,425,500
Issuance of bonus shares	**242,550**	-
Conversion of sukuk	**266,805**	-
Balance at the end of the year	**2,934,855**	**2,425,500**

During the Annual General Meeting of the Bank held on 11 March 2017, a dividend of 10% bonus share – 1 bonus share for every 10 shares amounting to AED 242.6 million was approved by the shareholders for the year ended 31 December 2016 (2016: cash dividend of AED 242.6 million i.e. 10% per share for 2015)

During the last quarter of 2017, the Bank issued a perpetual Sukuk convertible into ordinary shares of the Bank equivalent to 10% of share capital.

The perpetual Sukuk was issued for an amount of AED 266,805,000, equivalent to 10% of the Share Capital of the Bank as at the date of issuance with an option to convert to ordinary shares of the Bank at par value of AED 1 per share. The perpetual Sukuk was fully subscribed by the Sharjah Social Security Fund (Investor), an endowment fund established by an Emiri Decree No. 66 of 2017, issued by H.H. The Ruler of Sharjah. The Sukuk offered a profit of 2% per annum, payable to the Investor semi-annually or upon termination of the Sukuk. The Investor exercised the option to convert the Sukuk into Ordinary Shares of the Bank. Post conversion, the Sukuk was terminated and all profits due to the Investor were paid out.

The Bank had obtained all mandatory approvals from Securities and Commodities Authority and CBUAE for the issuance of the perpetual Sukuk and subsequent conversion into ordinary shares.

By virtue of the above activity, the Bank's ordinary shares and share capital increased from 2,668,050,000 shares to 2,934,500,000 shares and from AED 2,668,050,000 to AED 2,934,500,000 respectively.

19. Dividends

During the annual general meeting of the shareholder's held on 11 March 2017, a dividend of 10% bonus share – 1 bonus share for every 10 shares amounting to AED 242.6 million was approved for the year ended 31 December 2016 (2016: cash dividend of AED 242.6 million (AED 0.10 per share) for 2015). For the year 2017, the Directors propose a cash dividend of 8% of the paid up capital amounting to AED 234.8 million.

20. Proposed directors' remuneration

In accordance with the Article 169 of Commercial Companies Law No. 2 of 2015, the proposed directors' remuneration of AED 5.3 million *(2016: 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 Directors.

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 2017	1,330,626	89,008	(29,492)
Transfer to/from reserve	47,276	-	2,303
Change in fair value of financial assets	-	-	(12,299)
Balance at 31 December 2017	1,377,902	89,008	(39,488)

22. Income from Islamic financing

	2017	2016
Income from international murabaha and wakala with financial institutions	**58,705**	38,400
Income from murabaha	**293,748**	242,857
Income from syndicate products	**27,118**	15,804
Income from ijara financing	**694,465**	527,355
Income from other Islamic financing products	**36,971**	13,963
	1,111,007	**838,379**

23. Investment, fees, commission and other income

Net fees and commissions	**206,450**	172,696
Net gains from dealing in foreign currencies	**25,842**	26,883
Income from investments securities	**224,468**	149,060
Income from sale of properties held-for-sale	**23,450**	218,568
Revaluation gains on investment properties	**6,284**	70,113
Revaluation loss on properties held for sale	**(2,124)**	-
Rental income	**29,649**	26,933
Other operating income	**2,207**	959
	516,226	**665,212**

24. General and administrative expenses

Staff costs	**387,040**	336,544
Depreciation	**41,630**	31,604
Other general and administrative expenses	**127,570**	115,895
	556,240	**484,043**

25. Provision - net of recoveries

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

	2017	2016
Provision made during the year	**(253,847)**	(224,921)
Recoveries during the year	**99,475**	27,171
	(154,372)	**(197,750)**

b) Other provision – net of recoveries

	2017	2016
Impairment provision – investment securities	**-**	(6,402)
Recoveries / (impairment provision) – subsidiaries receivables	**4,926**	(23,446)
	4,926	**(29,848)**

c) Other recoveries

	2017	2016
Other recoveries during the year	**629**	**93**
Total provision - net of recoveries	**(148,817)**	**(227,505)**

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:

	2017	2016
Appropriation to depositors	**304,999**	210,463
Other adjustments	**2,325**	(10,481)
	307,324	**199,982**

27. Basic and diluted earnings per share

The calculation of earnings per share is based on earnings of AED 477.7 million *(2016: AED 462.9 million)* for the year divided by the weighted average number of shares for the year. There is no dilution impact on basic earnings per share.

28. Cash and cash equivalents

Cash and cash equivalents comprise of:	**2017**	2016
Cash and balances with banks and financial institutions	**3,103,111**	3,205,875
International murabaha and wakala arrangements with financial institutions	**3,925,490**	4,641,134
	7,028,601	7,847,009
Less cash reserves with CBUAE	**(1,727,918)**	(1,461,602)
Less due from banks maturing more than 3 months	**(606,045)**	(1,694,099)
Less due to banks with original maturity of less than 3 months	**(2,519,764)**	(2,653,883)
Cash and cash equivalents	**2,174,874**	**2,037,425**

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.

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 and ijarah receivables and other assets 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 and ijarah receivables and other assets 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.

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

Valuation of financial instruments (continued)

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.

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	Level 1	Level 2	Level 3	Total
31 December 2017					
Financial assets					
Investment securities - FVTPL	9	**67,704**	-	**36,730**	**104,434**
Investment securities – FVTOCI	9	909,777	-	157,112	1,066,889
Total		977,481	-	193,842	1,171,323
Non-financial assets					
Investment properties	10	-	-	2,167,763	2,167,763
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

During the year ended 31 December 2017 (31 December 2016: 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

	2017	**2017**	2016	2016
	FVTPL	**FVOCI**	FVTPL	FVOCI
Balance as at 1 January	**-**	**100,234**	-	200,155
Losses	**-**	**(9,236)**	-	(90)
Additions	**36,730**	**66,114**	-	-
Disposals	**-**	**-**	-	(99,831)
As at 31 December	**36,730**	**157,112**	-	**100,234**

Non-financial assets

	2017	2016
Balance at the beginning of the year	**2,124,359**	1,811,784
Additions	**32,850**	181,491
Transfer from held-for-sale	**77,372**	94,144
Disposal	**(56,406)**	(33,173)
Revaluation gain	**6,284**	70,113
Transfer to property and equipment	**(16,696)**	-
Balance at the end of the year	**2,167,763**	**2,124,359**

Unobservable inputs used in measuring fair value

The investment 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	
31 December 2017	Favorable	Unfavorable	Favorable	Unfavorable
	220,449	**(220,449)**	**15,711**	**(15,711)**

	Effect on profit and loss		Effect on OCI	
31 December 2016	Favorable	Unfavorable	Favorable	Unfavorable
	212,435	(212,435)	10,023	(10,023)

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 2017	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
Financial assets					
Cash and balances with banks and financial institutions	-	3,103,111	-	3,103,111	3,103,111
International murabaha and wakalah with financial institutions	-	3,925,490	-	3,925,490	3,925,490
Financing receivables	-	-	7,894,531	7,894,531	7,894,531
Ijarah receivables	-	-	13,812,844	13,812,844	13,812,844
Investment securities measured at amortised cost	3,470,268	-	587,836	4,058,104	3,862,814
Other assets	-	569,133	-	569,133	569,133
Total	3,470,268	7,597,734	22,295,211	33,363,213	33,167,923
Financial Liabilities					
Customers' deposits	-		22,318,523	22,318,523	22,318,523
Due to banks	-	4,076,241	-	4,076,241	4,076,241
Sukuks payable	5,501,743	-	-	5,501,743	5,501,743
Other liabilities	-	746,624	-	746,624	746,624
Total	5,501,743	4,822,865	22,318,523	32,643,131	32,643,131
31 December 2016					
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	-	858,994	-	858,994	858,994
Total	5,488,551	4,709,954	18,328,936	28,527,441	28,527,441

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 sukuks 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 properties

The fair value of investment properties were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's investment 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	Expected market rental growth rate	The estimated fair value increase / decrease if:
	Risk adjusted discount rates	Expected market rental growth rate were higher or lower
	Free hold property	The risk adjusted discount rates were lower / higher
	Free of covenants, third party rights and obligations	The property is not free hold
	Statutory and legal validity	The property is subject to any covenants, rights and obligations
	Condition of the property	The property is subject to any adverse legal notices / judgment
		The property is subject to any defect / damages
Comparison method	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	The estimated fair value increase/decrease if the inputs to the comparison method varies.

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, properties held for sale, sukuks issued and other money market activities.

d. Hospitality and brokerage

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

For the year ended 31 December 2017:	Corporate and government	Retail	Investment and treasury	Hospitality and brokerage	Total
Consolidated statement of income:					
Income from Islamic financing	848,315	202,918	59,774	-	1,111,007
Profit expense on sukuks	-	-	(167,763)	-	(167,763)
Investments, fees, commission and other income	101,489	116,346	298,391	-	516,226
Income from subsidiaries	-	-	-	30,585	30,585
Total income	949,804	319,264	190,402	30,585	1,490,055
General and administrative expenses	-	-	-	(30,600)	(30,600)
General and administrative expenses - unallocated	-	-	-	-	(525,640)
Net operating income / (loss)	949,804	319,264	190,402	(15)	933,815
Provisions- net of recoveries	(117,173)	(36,570)	-	4,926	(148,817)
Profit before distribution to depositors	832,631	282,694	190,402	4,911	784,998
Distribution to depositors	(221,172)	(37,485)	(48,667)	-	(307,324)
Profit for the year	611,459	245,209	141,735	4,911	477,674
As at 31 December 2017:					
Consolidated statement of financial position:					
Assets					
Segment assets	19,410,159	2,919,607	14,849,228	679,517	37,858,511
Unallocated assets	-	-	-	-	430,008
Total assets	19,410,159	2,919,607	14,849,228	679,517	38,288,519
Liabilities					
Segment liabilities	17,895,706	4,719,652	9,587,213	147,362	32,349,933
Unallocated liabilities	-	-	-	-	419,306
Total liabilities	17,895,706	4,719,652	9,587,213	147,362	32,769,239

30. Segment reporting (continued)

For the year ended 31 December 2016:	Corporate and government	Retail	Investment and treasury	Hospitality and brokerage	Total
Consolidated statement of income:					
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 for subsidiaries	-	-	-	27,063	**27,063**
Total income	719,333	246,074	381,947	27,063	**1,374,417**
General and administrative expenses	-	-	-	(30,428)	**(30,428)**
General and administrative expenses - unallocated	-	-	-	-	**(453,615)**
Net operating income	719,333	246,074	381,947	(3,365)	**890,374**
Provisions- net of recoveries	(181,064)	(16,593)	(6,402)	(23,446)	**(227,505)**
Profit before distribution to depositors	538,269	229,481	375,545	(26,811)	**662,869**
Distribution to depositors	(156,727)	(26,757)	(16,498)	-	**(199,982)**
Profit for the year	**381,542**	**202,724**	**359,047**	**(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**
	14,242,614	**4,390,263**	9,346,849	58,414	**28,682,982**

30. **Segment reporting (continued)**

Assets 2017	**GCC**	**Other Arab Countries**	**North America**	**USA**	**Europe**	**Asia**	**Other**	**Total**
Cash and balances with banks and financial institutions	2,635,276	1,840	9,145	36,198	419,113	1,128	411	3,103,111
International murabaha and wakalah with financial institutions	3,815,300	110,190	-	-	-	-	-	3,925,490
Financing receivables	7,873,657	111	-	-	20,727	36	-	7,894,531
Ijarah receivables	13,723,516	89,328	-	-	-	-	-	13,812,844
Investments securities	3,760,241	-	-	-	503,403	739,835	30,658	5,034,137
Investment properties	2,167,763	-	-	-	-	-	-	2,167,763
Properties held for sale	568,078	-	-	-	-	-	-	568,078
Other assets	922,436	800	-	-	28	-	-	923,264
Property and equipment	859,301	-	-	-	-	-	-	859,301
Total assets	36,325,568	202,269	9,145	36,198	943,271	740,999	31,069	38,288,519
Liabilities 2017								
Customers' deposits	22,220,118	48,751	-	6,271	29,448	11,169	2,766	22,318,523
Due to banks	3,496,290	-	-	-	579,555	396	-	4,076,241
Sukuks payable	5,501,743	-	-	-	-	-	-	5,501,743
Other liabilities and zakat payable	823,874	37	44,148	1	4,614	57	1	872,732
Shareholders' Equity	5,519,280	-	-	-	-	-	-	5,519,280
Total liabilities and shareholder's equity	37,561,305	48,788	44,148	6,272	613,617	11,622	2,767	38,288,519
Contingent liabilities	2,210,520	-	-	-	-	-	-	2,210,520

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

30. Segment reporting (continued)

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

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.

	2017	2016
a) Letter of credit - by sector:		
Corporate	**220,965**	144,438
Government	**2,787**	7,671
	223,752	**152,109**
b)Letter of guarantee – by sector:		
Banks	**1,545**	2,135
Corporate	**1,818,660**	1,364,851
Government	**93**	118
High net worth individual	**23,586**	18,436
Retail	**10,013**	8,344
Non-banking financial institution	**132,872**	132,871
	1,986,769	**1,526,755**
c) Capital commitments		
Property and equipment	**9,015**	5,978
Other real estate commitments	**159,936**	100,920
	168,951	**106,898**

Others

The Bank has also issued a financial guarantee of AED 5 million *(2016: 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 *(2016: AED 230 million)*.

The Bank receives legal claims 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:

	31 December 2017			
Statement of financial position	**Key management personnel**	**Major shareholders**	**Other related parties**	**Total**
Financing and Ijarah receivables	**630,914**	**4,288,504**	**3,422,199**	**8,341,617**
Customers deposits	**(38,911)**	**(195,830)**	**(3,664,669)**	**(3,899,410)**
Contingent liabilities – off balance sheet	**120,073**	**3,012**	**-**	**123,085**
Statement of profit or loss For the year ended 31 December 2017				
Income from Islamic financing	**26,406**	**127,490**	**98,655**	**252,551**
Depositors' share of profit	**(286)**	**(2,512)**	**(10,594)**	**(13,392)**

	31 December 2016			
Statement of financial position	**Key management personnel**	**Major shareholders**	**Other related parties**	**Total**
Financing and Ijarah receivables	518,507	3,126,934	2,602,694	**6,248,135**
Customers deposits	(56,852)	(64,034)	(2,505,771)	**(2,626,657)**
Contingent liabilities – off balance sheet	138,168	7,870	-	**146,038**
Statement of profit or loss For the year ended 31 December 2016				
Income from Islamic financing	27,537	86,125	71,374	**185,036**
Depositors' share of profit	(203)	(5,176)	(18,092)	**(23,471)**

Key management compensation includes salaries and other short term benefits of AED 23.5 million in 2017 *(2016: AED* 21.8 *million)* and post-employment benefits of AED 1.6 million in 2017 *(2016: AED* 1.5 million*)*.

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

During the last quarter of 2017, the Bank issued a perpetual Sukuk convertible into ordinary shares of the Bank equivalent to 10% of share capital, fully subscribed by Sharjah Social Security Fund, as disclosed in note 18.

33. Social contributions

The Bank has made social contributions of AED 65.6 million *(2016: AED 54.5 million)* from zakat fund. Zakat fund is calculated in accordance with note 3(n).

The Bank during the year has also made a social contribution of AED 2.8 million *(2016: 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. Comparatives figures

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