

Annual Review 2017

# Grow stronger together



بنك أبوظبي الأول

**FAB**

First Abu Dhabi Bank



**The Late Sheikh Zayed bin Sultan Al Nahyan**  
The UAE's Founding Father



**His Highness Sheikh Khalifa  
bin Zayed Al Nahyan**  
President of the United Arab  
Emirates and Ruler of Abu Dhabi



**His Highness Sheikh Mohammed  
bin Zayed Al Nahyan**  
Crown Prince of Abu Dhabi and  
Deputy Supreme Commander  
of the UAE Armed Forces

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The merger of two successful banks has created a new entity with the financial strength, expanded expertise and global network to drive growth in the UAE's economy and the Middle East, while also opening up international growth opportunities to become the financial powerhouse of the region.

This is  
**our story**



# Becoming the engine that drives growth and prosperity in the UAE

On behalf of the Board of First Abu Dhabi Bank (FAB), I am pleased to present the Group's first Annual Review highlighting the bank's achievements in a transitional year in which it delivered a resilient performance and high returns for shareholders.

FAB's 2017 results are a testament to the sound rationale behind the merger, and clearly demonstrate that it was a well-planned and strategic decision based on forward-looking market perspective and insights. Our merger, which was legally accomplished in April 2017, created the UAE's largest bank, with the aim of actively supporting the UAE's economy by combining the solid expertise and strengths of both legacy banks.

FAB delivered a Group Net Profit amounting to AED 10.92 billion, and an Adjusted Group Net Profit for the full year of AED 11.52 billion after excluding integration costs and merger-related amortisation of intangibles. This was broadly in line with 2016, reflecting a resilient performance in a year of transition.

In line with FAB's commitment to deliver top shareholder returns, the bank's Board of Directors has recommended the distribution of a cash dividend of AED 0.70 per share for the financial year ended 31 December 2017. This implies total cash dividends of AED 7.6 billion for FAB's first year, up 11% compared to 2016. The proposed total cash dividend is higher than the aggregate amount distributed historically by the legacy banks, and it further underscores the strategic rationale of the merger.

## AED 0.70

Dividend per share

## AED 7.6Bn

Cash Dividends; up **11%** from 2016



In line with our pledge to put customers first, and to Grow Stronger, FAB will continually invest in creating the most customer-friendly banking experience, and we will support the growth ambitions of our shareholders, businesses, and the UAE's economy in general. To this end, we will benefit from our strong and diversified balance sheet, market leading efficiency, and strong governance structure. We are confident that we are moving along the right path to support our future growth and we look forward to capitalising on growth opportunities as they arise in all areas of the banking market. We believe that the UAE's 'Year of Zayed' in 2018 will be an additional catalyst for further successes, reflecting the vision of our late founding father Sheikh Zayed bin Sultan Al Nahyan and our wise leadership to promote the development and prosperity of the UAE and create a brighter future for generations to come.

On behalf of FAB's Board of Directors, I would like to thank the President of the United Arab Emirates, His Highness Sheikh Khalifa bin Zayed Al Nahyan, for his wise leadership and support,

His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President, Prime Minister and the Ruler of Dubai, His Highness Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi, and their Highnesses, the Rulers of the UAE, and members of the Supreme Council for their continued guidance.

I would also like to express my particular gratitude and thanks to the UAE Central Bank, the UAE Securities and Commodities Authority, Abu Dhabi Securities Exchange, correspondent banks and our partners during the merger for their support during this transitional year for FAB. We again offer our thanks to our shareholders, customers and the communities we serve for their undiminished loyalty and faith in us.

Finally, I would like to thank our Board members, the executive management, and our talented staff, who have shown passion, dedication, patience and trust in us during this pivotal year.

**Tahnoon Bin Zayed Al Nahyan**  
Chairman

“FAB will continually invest in creating the most customer-friendly banking experience, and we will support the growth ambitions of our shareholders, businesses, and the UAE's economy in general.”

# A new bank with financial strength, expertise and a strong global network

## Who we are and what differentiates us

### The UAE's largest bank, with a wide range of products and services provided through an extensive domestic and global network

FAB is the largest bank in the UAE and one of the largest in MENA as a result of the transformational merger between two of Abu Dhabi's leading financial institutions.

We offer an extensive range of products and services to our customers through our market-leading Corporate and Investment Banking (CIB) and Personal Banking (PBG) franchises and a complementary offering through subsidiaries.

Our domestic network includes over 100 branches across the seven Emirates and our global presence spans across 19 countries (excluding the UAE).

**AED669Bn**

Total Assets

**17.8%**

Basel III Capital Adequacy Ratio

**103**

Branches/Cash offices in UAE

**603**

ATMs/CDMs

**AED112Bn**

Market Capitalisation

**14.8%**

Return on Tangible Equity

**19**

Countries of operation (outside the UAE)

### FAB is the highest rated bank in the UAE and MENA and one of the safest financial institutions globally

The affirmation of credit ratings by Moody's, S&P, and Fitch post-merger completion in April is a powerful testament to the strong rationale for the merger as it enhances the combined bank's business position and credit profile.

**Aa3**

Moody's

**AA-**

S&P

**AA-**

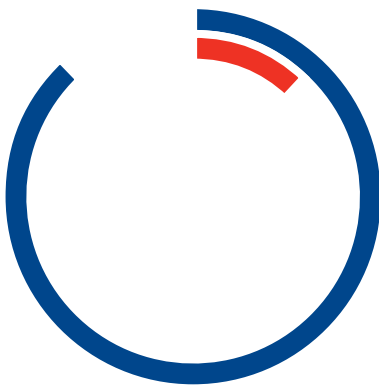
Fitch



## 2017 financial highlights

### Revenue by geography

- UAE **88%**
- International **12%**



**AED19.5Bn**

Total Revenue

### Revenue by business segment

- Corporate & Investment Banking **48%**
- Personal Banking **35%**
- Subsidiaries **7%**
- Head Office **10%**

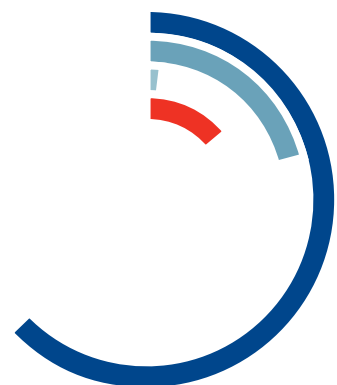


**AED11.5Bn**

Adjusted Net Profit\*

### Net Profit by business segment

- Corporate & Investment Banking **63%**
- Personal Banking **21%**
- Subsidiaries **2%**
- Head Office **14%**



**AED10.9Bn**

Reported Net Profit

**AED331Bn**

Loans and Advances

**AED396Bn**

Customer Deposits

**AED102Bn**

Total Equity

\* Excluding integration costs and merger-related amortisation of intangibles

With a global network across 19 countries in addition to the UAE, FAB will continue to strengthen and facilitate the trade flows and financial links amongst trading partners at home and abroad.

## Europe and Americas (E&A)

France

UK

Switzerland

USA

Brazil

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# Middle East and Africa (MEA)

- UAE
- Bahrain
- Egypt
- Jordan
- Kuwait

- Lebanon
- Libya
- Oman
- Qatar
- Sudan

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# Asia Pacific (APAC)

- China/Hong Kong
  - India
  - Malaysia
  - Singapore
  - South Korea
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# Creating a sustainable economy

## 2017 was a year of considerable change, in the UAE and around the world.

Globally, the IMF posted an upswing in economic activity with a marginally revised forecast of 3.6% for 2017 and 3.7% for 2018. Key economies – such as Brazil and the Russian Federation – emerged from recession, prices of most commodities either stabilised or rose, and signs appeared of investment optimism in the coming year after a prolonged period of weakness. Accelerating growth was achieved among emerging and developing economies, by some 4.3 percent in 2017, reflecting gains by both commodity exporters and importers.

The UAE's GDP grew by a subdued 1.3% in 2017, but the IMF predicts it to improve to 3.4% in 2018, bolstered by stabilised oil prices, and to remain at 3.3% in 2019 as Expo 2020 gets ever closer. The country's budget deficit for 2017 was forecast at around 3.4% of GDP, compared with 4.3% in 2016, and is expected to return to surplus by 2019. A similar but less pronounced uptick is anticipated in other markets in the region. Abu Dhabi's GDP forecast, according to the IMF, is expected to post a stronger uptick from 0.3% in 2017 to 3.2% in 2018 on the back of the recent recovery in the oil price and the Emirate's ongoing economic diversification. Abu Dhabi's economy is on a clear path to recovery, in line with its 2030 plan, as it continues to increase non-oil share in real GDP from 41% in 2005 and 51% in 2016 to a targeted 64% by 2030.

The prospect of an economic tailwind had a positive impact on a number of decisions which were taken both at the UAE government and corporate levels. The merger that created FAB can be seen, like energy diversification and measures to boost the UAE private sector, as a key component of the engine driving the UAE's sustainable economy of the future. Meanwhile, and perhaps most notably, the UAE took further steps as did Saudi Arabia to diversify its revenues and thus insulate itself from future volatility in oil prices by introducing VAT from January, which in the case of the UAE, is expected to help boost state revenues by some AED 12 billion.

Good returns were achieved in regional markets despite unexpected, and in some cases persistent, geopolitical events. The stabilising oil prices and renewed interest in investment helped banks in particular to finish the year strongly. Local equity markets began to see renewed IPO activity with a number of flotations successfully executed and more are expected in 2018. Additionally, MENA bond issuances in both conventional and sukuk forms are increasing with bond sales in the region in the first 2 months of 2018 having the best start to a year on record.

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# AED12Bn

Government revenue boost  
expected from VAT

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# 64%

Target non-oil real GDP contribution  
by 2030 in Abu Dhabi

From a regulatory perspective, the implementation of IFRS9 as of 1 January 2018 was an important development coupled with the migration to the Basel III liquidity and capital framework as per the glide path instructed by the UAE Central Bank. These measures underpinned a healthy and well managed sector, with strong capitalisation levels and comfortable liquidity. Even so, subdued loan growth persisted due to tepid demand. However, this is expected to reverse in 2018 as the banking sector credit growth is expected to recover to mid-single digit on the back of economic growth recovery and improving business sentiment.

Anticipated US FED rate hikes in 2018 will also have a positive effect on the UAE banking sector margins as a whole, with varying impacts from one bank to another. The spectre of inflation remains a key risk for markets in 2018 though, after nearly 10 years of loose monetary policy and quantitative easing. The sensitivity of the government bond market to any sustained rise in the underlying yield structure will determine the velocity and extent of any meaningful correction across risk assets over the coming months.



# Transforming our business

Dear shareholders,

**I am remarkably proud to have the opportunity, in FAB's first annual review, to share with you our accomplishments for the first year of our integration, the tremendous opportunities ahead of us, as well as our strategic aspirations for the bank.**

The merger that created FAB in 2017 will be remembered as a transformational event in the country's history. While marking the start of a new journey, it created a stronger and larger bank, with the financial strength, expertise and international connectivity to be an engine for growth for our nation and beyond. This merger is also embedded in Abu Dhabi's transformation journey as it continues to make great progress in driving economic diversification to achieve sustainable, long term growth and prosperity.

I am extremely pleased to report that FAB moved swiftly and significantly ahead in its integration plan in 2017. Less than nine months after the merger was completed, we have successfully delivered against many of the milestones that we set for ourselves in this ambitious agenda. Meanwhile, the Group made meaningful progress to optimise the balance sheet and improve the fundamentals of the business to gear up for growth in 2018 and onwards. While laying the foundation to drive sustainable value for shareholders over the long term, all our decisions delivered strong results in 2017, enabling us to pay, in our first year, the highest dividend amount ever paid by legacy banks historically on a combined basis.

“While laying the foundation to drive sustainable value for shareholders over the long term, all our decisions delivered strong results in 2017.”

“Looking ahead, FAB is furthering the success of a combined legacy of over 50 years by driving growth, adapting to change and capturing new opportunities to grow stronger, together.”



We have established sturdy foundations for the bank early on in our integration journey. This included designing a world-class operating model and appointing the best talent to drive the organisation forward and help it achieve business and strategic targets. The harmonisation of the Group's policies and risk framework was also an important step completed in a timely and efficient manner. In addition, we ensured a seamless transition for customers with no service disruption in spite of the significant changes impacting both legacy institutions.

The launch of our new brand and “Grow Stronger” movement in May last year, further cemented our promise to inspire and help our stakeholders to achieve their goals. The brand roll-out we have initiated already reached most of our customer touch points regionally and internationally in 2017 and will be fully completed by the end of 2018.

As part of the overall integration, we are firmly focused on enhancing efficiency and productivity across the Group, by evaluating our activities and network both locally and internationally, in order to have the right infrastructure to support our growth ambitions and long term strategy. Through these initiatives, we realised cost synergies of around AED 500 million in our first year alone, and we are set to achieve AED 1.5 billion of annual run-rate cost synergies by 2020.

Our next major milestone will be the full integration of IT systems, which is progressing well and on track to be completed around the end of 2018 to mark Customer Day One.

### Looking ahead

With the highest credit ratings of any MENA bank and one of the highest combined ratings of any bank in the world, and with operations in 19 countries worldwide in addition to the UAE, we are very well placed to capture future growth opportunities across the Corporate and Investment Banking Group (CIB), the Personal Banking Group (PBG) and our entire business spectrum. Our vision is to create value for our shareholders, customers, employees, and communities to grow stronger through differentiation, agility and innovation.

2018 is a period of consolidation and growth for FAB, with our core businesses positioned to grow locally, regionally and internationally, to deliver more operating efficiencies, and deliver on our goals.

Regionally, we have taken notable steps to expand our presence into Saudi Arabia and we have attained commercial and investment banking licences from the respective authorities. This is a landmark development for FAB which will strengthen our ability to tap into one of the largest economies and capital markets in the MENA region and further cement the strong relationship which exists between the UAE and Saudi Arabia.

As a customer-centric organisation, we are now, more than ever, committed to strengthen our position as the preferred banking partner for present and future generations. As we continue to meet our customers' evolving needs in the digital era, we will continue to evolve and adapt our organisation to the new developments

arising in our industry, whilst always striving to capture growth opportunities, and maximising value for our shareholders.

This takes on even greater significance for us at home, as the UAE celebrates the Year of Zayed in 2018 to honour the remarkable achievements of our union's founding father. We will continue to work with all our partners to support the growth ambitions of our stakeholders and fulfil his vision of a strong and prosperous UAE.

While 2017 was a year of significant change and transformation for FAB, we have an exciting future ahead of us as we continue to realise a successful integration and create value for our customers, employees and shareholders.

Looking ahead, FAB is furthering the success of a combined legacy of over 50 years by driving growth, adapting to change and capturing new opportunities to grow stronger, together.

Thank you for your unwavering trust in FAB.

**Abdulhamid Saeed**  
Group Chief Executive Officer

# A resilient performance in a transitional year

FAB produced a resilient performance in 2017, achieving a full year Group net profit of AED 10.92 billion, compared to AED 11.32 billion in 2016. Our Adjusted Group net profit, excluding integration costs and merger-related amortisation of intangibles, was AED 11.52 billion, broadly in line with the previous year, which is a significant achievement in a year of transition.

Overall, our full year Group revenue was 4% lower than in 2016, due to softer market conditions and portfolio optimisation initiatives. Total cash dividends of AED 7.6 billion, AED 0.70 per share, were declared and paid for 2017. This amount of cash dividend paid is higher than the aggregate amount distributed historically by the legacy banks and this underlines our expectation of the real and long-term benefits from the merger for the coming years.

FAB maintained a strong balance sheet and healthy ratios with loans and advances at AED 330.5 billion and customer deposits were up 4% against 2016 to AED 395.8 billion. Loans and advances ended slightly lower year-on-year as balance sheet optimisation undertaken through the year was only partially offset by the strong momentum in the second half of 2017. The bank sustained a comfortable liquidity position, with the loans-to-deposit ratio improving to 83.5% which is significantly better than the industry average.

Our cost-to-income ratio (excluding integration costs) stood at 27.7% at year-end (27.0% ex-integration and merger-related amortisation costs), improving from 28.3% the previous year and placing us among the most efficient banks in MENA and emerging markets. Our asset quality metrics remained strong with a non-performing loan ratio of 3.1% and solid provision coverage at 120%.

Whilst enjoying the strongest combined ratings of any bank in the Middle East (credit ratings of AA- or equivalent) and as one of the safest banks worldwide, FAB has access to various sources of funds from multiple geographies, at competitive pricing. 2017 marked the completion of several landmark transactions on the wholesale funding side. In March, the bank issued the first ever Green Bond in the Middle East, demonstrating its commitment to sustainable business, and to pursue innovative financing solutions. The bank successfully issued a 30-year Formosa bond (USD bond listed in Taiwan) amounting to USD 885 million in January 2017, achieving significant arbitrage funding.

As at 31 December 2017, FAB had total assets of AED 669 billion making it the largest lender in the UAE and one of the largest in the region. The bank has been ranked by Global Finance as the safest bank in the UAE and the Middle East, 4th safest in emerging markets, 17th safest amongst commercial banks worldwide, and the 31st safest bank globally.



## Pro forma income statement highlights

In AED Mn	FY'17	FY'16
Revenues	<b>19,533</b>	20,302
Operating expenses	<b>(5,875)</b>	(5,922)
BAU costs	<b>(5,274)</b>	(5,745)
Integration/merger transaction-related costs	<b>(463)</b>	(178)
Amortisation of Intangibles (merger-related)	<b>(138)</b>	–
Impairment charges	<b>(2,384)</b>	(2,664)
Reported Net profit	<b>10,915</b>	11,322
<b>Adjusted Net profit</b>	<b>11,517</b>	11,500
<b>EPS (AED)</b>	<b>0.96</b>	1.0
<b>DPS (AED)</b>	<b>0.70</b>	0.63

### Performance by business

#### Corporate and Investment Banking Group (CIB)

In 2017, FAB's industry-leading CIB franchise delivered a solid performance in a challenging operating backdrop marked by a subdued loan market and lower trade activity. Despite revenues reducing 4.5% year-on-year, strong business momentum in the fourth quarter translated to 6% sequential growth in operating income. This was led by a strong performance across the loan capital markets, debt capital markets and corporate advisory businesses, capitalising on a very active pipeline in the second half of 2017. The UAE business overall delivered solid results year-on-year with higher risk adjusted returns.

The liquidity position improved, with customer deposits rising 7% while loans were flat year-on-year. Disciplined cost management and the realisation of synergies following the merger resulted in a 11% reduction in operating expenses compared to the previous year. Impairment charges were up year-on-year on the back of specific impairments in the fourth quarter due to prudent provisioning.

#### Personal Banking Group (PBG)

FAB's Personal Banking franchise delivered a resilient performance in 2017 amidst a slowdown in retail spending and continued asset mix optimisation.

Revenues were down 8% year-on-year primarily as a result of lower interest income due to tighter risk appetite leading to margin compression. Higher credit card and insurance-related fees in the fourth quarter supported a 2% sequential growth in operating income.

Net loans and advances were 3% lower year-on-year reflecting disciplined lending and portfolio optimisation. At the same time, mortgage lending recorded a solid growth (of 7%) in line with the bank's strategy to channel liquidity towards higher risk adjusted assets.

Operating expenses reduced by 13% indicating tight cost control and the realisation of substantial synergies post-merger. Provisions were also 8% lower year-on-year with sufficient coverage of impaired loans.

During the period, PBG continued to implement strategic initiatives designed to enhance our customer value proposition through cross-sell, innovation and technology, leading to increased efficiency and productivity across the business.

#### Subsidiaries

Representing 7% of total Group Revenue, revenues for Subsidiaries in 2017 stood at AED 1.31 billion, down 21% from 2016. This decrease was primarily due to lower property-related income, offsetting higher net interest income earned during the period. Both operating expenses and impairment charges were higher year-on-year, reflecting challenging operating conditions.

#### International Banking Group

While the Group is carrying out a comprehensive strategic review of its international value proposition to align with long-term strategic targets, FAB's international business remains a key competitive advantage and differentiator for the bank as a significant contributor to liquidity and risk diversification.

Full year 2017 revenues stood at AED 2.43 billion, down 5% year-on-year, primarily impacted by currency devaluation in Egypt. International revenues contributed 12% to Group revenues as of December-end 2017.

While loans increased by 3%, FAB's solid core deposit franchise led to a 15% growth in international deposits in 2017. As of December-end 2017, international loans and deposits represent 20% and 27% respectively of the Group's total loans and deposits.

# Our vision

Creating value for our customers, employees, shareholders and communities to grow stronger through differentiation, agility and innovation.

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## Customers

**We empower** our customers to grow stronger through choice, convenience, and customised products and services.

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## Employees

**We create** an environment where our people can leverage their strengths and excel in their performance.

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## Shareholders

**We deliver** superior and sustainable returns to our shareholders.

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## Communities

**We build** a legacy of positive change in our communities.



### Personal Banking strategic focus

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## Dominant personal bank in UAE

- Bank of choice across key segments in Abu Dhabi, and enhanced market share in Dubai and Northern Emirates
- Multichannel and 'smart' distribution model leveraging on digital solutions
- Leader in everyday banking anchored in payment solutions and cards

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## Regional wealth advisor of choice

- Access new high growth HNWI segments
- Use global network to expand product and service range
- Deepen existing relationships with increased cross-sell

### Corporate and Investment Banking strategic focus

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## Trusted partner to CIB customers

- Leverage scale and cross-sell to deepen client relationships and increase share of wallet in UAE and abroad
- Preferred banking partner for government and government-related entities
- One-stop shop banking partner for large corporates and medium-sized businesses

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## International business built around UAE knowledge and relationships

- Wholesale-driven international strategy Reference bank for UAE multinational businesses
- Selective international presence and sharper focus on high potential growth markets

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## Complementary offering through subsidiaries

# Our integration journey

We have achieved great success in our integration journey, delivering all planned milestones in 2017 as well as exceeding our cost synergy realisation targets and improving operating efficiency.

## 2016

3 July: FGB-NBAD merger announcement



Appointment of Chief Integration Officer and external consultants



Integration Steering Committee (ISC) and Integration Management Office (IMO) established

Appointment of Senior Leadership team

Merger approved by shareholders at General Assembly Meeting

Filing of special resolution and credit objection period

## 2017

2 April: merger completion; first day of trading of new shares



Name change to First Abu Dhabi Bank (FAB) approved by shareholders at General Assembly Meeting

Harmonisation of Group policies and risk framework, finalisation of organisational structure and operating model, and network optimisation

CIB product and pricing harmonisation completed



Launch of new brand identity and brand roll-out across local and international network

Subsidiaries: Integration of real estate and property management businesses completed, integration of Islamic finance subsidiaries on track; brokerage business rebranded

“The success of our integration journey so far comes as a result of the strong commitment to our plans across the bank. 2017 was a year of transition for us and we are confident that 2018 will be a year of consolidation and growth.”

**Abdulhamid Saeed**

Group Chief Executive Officer

## Milestones to be delivered in 2018

IT system integration on track to be completed around the end of 2018

PBG product and pricing harmonisation

Strategic review and implementation of international value proposition

Ongoing UAE and international network optimisation

Ongoing process refinements, simplification and automation

### Our integration journey in numbers

~AED**500Mn**

Cost synergies realised in 2017, significantly ahead of our target for Year 1

~AED**1.5Bn**

Cost synergies annual run-rate 2020 target, up from a previous target of ~AED 1 billion

AED**1.1Bn**

Estimated one-off integration costs over 2017-2019

**27.7%**

2017 cost-income ratio (ex-integration costs), notably improving from 2016 level (28.3%)



# Corporate and Investment Banking Group (CIB)



FAB's market-leading Corporate and Investment Banking (CIB) franchise provides comprehensive offerings for both our UAE and international corporate and institutional clients, served through dedicated client segments.

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## 48%

Contribution to Group revenue

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## 12.5% 11.5%

### GCC MENA

Market share in loan league tables

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## Awards

### Euromoney Awards

'Best Investment Bank in the UAE'

'Best Bank for Financing  
in the Middle East'

'Best Bank for Markets  
in the Middle East'

### The Banker Awards

'Most Innovative Investment  
Bank from the Middle East'

### Global Capital Awards

'Best Arranger of Loans  
in the Middle East'

### GTR Awards

'Best Trade Finance Bank in MENA'

### Global Finance Awards

'Best Overall bank for Cash  
Management in the Middle East'

'Best FOREX Provider in the UAE'

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Following our merger, the combined depth and geographic breadth of our offering, and the expertise of our specialised teams, provides us with an unmatched competitive advantage, allowing us to better serve our customers and help them prosper and grow stronger.

CIB's diverse and sophisticated portfolio of products and services includes Credit facilities, Global Transaction Services, Corporate Finance, Islamic Finance and Global Markets products to both UAE and international clients.

### Our achievements

We delivered a solid performance in 2017, in spite of continuing economic headwinds in the market resulting in subdued loan demand and generally lower trade activity. A pick-up in performance once key integration milestones had been passed, notably in the second half of the year, resulted in sequential revenue growth of 6% in the fourth quarter. CIB, which includes Corporate, Commercial and Financial Institutions businesses, contributed 48% to FAB's revenues and 63% of the Group's net profit in 2017.

### Our model for better client servicing

Our client relationship-led model provides our clients access to our integrated portfolio of offerings. Global Corporate Finance, Global Transaction Banking and Global Market Sales, all demonstrated their market-leading credentials during this transitional period.

Our client coverage teams, for the Abu Dhabi region as well as Dubai and the Northern Emirates region and our Financial Institutions Group, produced a stellar performance in which they exceeded their operating revenue targets.

### Global Corporate Finance

Global Corporate Finance (GCF) specialises in corporate loans, bonds and equities. We have significant depth of experience in organisation, structuring, pricing, and distribution of debt and equity products.

In 2017, GCF experienced a strong performance across the Loan Capital Markets, Debt Capital Markets and Corporate Advisory businesses. Particularly in the second half of the year, our combined scale and strength and access to a larger pool of existing clients enabled us to cross sell and deepen our relationships with clients, in addition to consolidating our position as a preferred banking partner to government and government-related entities. It also helped us to compete for all significant new opportunities and secure a very strong pipeline of mandates across the MENA region and key international markets.

As a result, FAB dominated both GCC and MENA loan league tables with market shares of 12.5% and 11.5% respectively and deal volumes exceeding USD 5 billion. Our Debt Capital Markets franchise grew as well, placing the bank among the top 5 bookrunners in MENA Bonds and Sukuk league tables for the year, with around USD 35 billion of financing raised for clients from over 40 capital markets transactions.

### Global Transaction Banking

We provide a full range of transactional banking services across Cash Management and Trade Finance. Our comprehensive value-added trade products suite and our "Single Window" regional currency clearing proposition together with a fully automated supply chain finance solution helped to drive our business in 2017, and was recognised by a number of awards including Best in Cash Management and Liquidity Management in the Middle East by Global Finance magazine, and Best Trade Finance Bank by Global Trade Review. Our Cash Management business recorded a stellar performance with revenues growing 34% year-on-year in 2017, supported by a significant number of new mandates and the launch of innovative products and customised solutions for core clients.

### Global Markets

Our Global Markets operation benefits from our position as the strongest bank in the UAE with access to diverse sources of liquidity. We have access across the MENA, Asian and African markets and our dedicated markets research team provides timely insights on market movements. Our e-commerce trade execution platform offers clients complete control over their trades using world class technology. During 2017 we were able to secure a wide range of mandates at home and abroad.

### Dominant regionally and relevant internationally

Through the merger, we have become the largest bank in the UAE, and one of the largest in the MENA region. That said, we can see scope for further penetration in Dubai and the Northern Emirates, to consolidate our local dominance as the preferred bank for large corporates and medium-sized businesses. More importantly, the merger has brought together the coverage-led (i.e. customer-centric) and product specialist characteristics of the constituent banks to create a regional champion, and a bank that will compete for business on an equal footing with global banks around the world.

FAB's international business, built around regional knowledge and relationships, remains a key competitive advantage with operations in 19 countries outside the UAE. With a wholesale-driven international strategy, it is a key differentiator particularly for CIB, as a significant contributor to both liquidity and risk diversification. In 2017, our international business delivered a net profit of AED 1.0 billion and generated operating revenues of AED 2.4 billion, contributing 12% to the Group's total revenues.

Meanwhile, international deposits in CIB increased by 15% compared to the previous year. This is likely to grow in the years ahead as we review our international value proposition using our Target Operating Model to align P&L responsibilities for CIB with our long-term strategic targets and extend our domestic and regional offerings further afield, with a sharper focus on high potential growth markets, such as Asia-Pacific. This will also enable us to roll-out a standardised CIB platform across all international locations. Whilst we continue to maintain strong relationships in the countries in which we operate, we aim to raise our dominant domestic position to the regional level, with particular focus on Egypt and Saudi Arabia, as well as India, building trust and leveraging our capabilities to support inward and outward trade and investment flows with the UAE using our Connector Model.

### Recognition

The progress we are making in this regard is reflected in the awards we received in 2017 from the likes of Euromoney (Best Investment Bank in the UAE, Best Bank for Financing in the Middle East, Best Bank for Markets in the Middle East), The Banker (Most Innovative Investment Bank from the Middle East), Global Capital (Best Arranger of Loans in the Middle East), GTR (Best Trade Finance Bank in MENA), Global Finance (Best Overall bank for Cash Management in the Middle East, Best FOREX Provider in the UAE) among others.

### Looking ahead

As indicated earlier, the integration process within CIB made excellent progress. Our commitment to client engagement was recognised in very high ratings received from satisfaction surveys carried out towards the end of the year. Having been set a bank-wide timetable of three years to meet cost reduction targets, CIB was able to achieve the required savings in year one, while continuously improving its offerings to clients. The remaining integration-related activities for CIB will be completed by fully unifying our IT infrastructure platform, which is on track to be completed by the end of 2018.

### André Sayegh

Deputy Group CEO and Group Head of Corporate and Investment Banking

“FAB’s international business, built around regional knowledge and relationships, remains a key competitive advantage with operations in 19 countries outside the UAE.”



# Personal Banking Group

(PBG)



The merger of FGB and NBAD created a dominant personal bank in Abu Dhabi and the UAE. With an extensive network of branches and cash offices domestically, market-leading retail and wealth advisory services, and growing digital capabilities, we offer customers unique solutions that truly make a difference in their lives and support them in meeting their goals, as we Grow Stronger together.

## 35%

Contribution to Group revenue

## Enhanced Customer Experience

through cross-sell, innovation  
and technology

## Awards

### Global Investor Awards

'UAE Asset Manager of the Year'  
'Best Seamless Government  
Experience'  
'Digital Leader'

### MENA Fund Manager Performance Awards

'Best Fixed Income Fund of the Year'  
'UAE Asset Manager of the Year'

With a focus on the diverse needs of the retail, affluent, private banking and SME customer segments, the Personal Banking Group offers a wide range of attractive products, from current accounts, deposits, credit cards and loans for day-to-day banking to more sophisticated investment solutions and small business banking products and services.

### Our achievements

PBG delivered a resilient performance in 2017, despite a slowdown in retail spending and continued asset mix optimisation. Revenues were down 8% year-on-year, primarily due to lower interest income arising from a mix of tighter risk appetite and lower loan growth, however, higher credit card and insurance-related fees, particularly in the last quarter of the year, supported a 2% sequential growth in revenues. PBG contributed 35% to the Group's total revenues and 21% to the net profits in 2017.

### Enhanced customer experience

During the year, PBG implemented a number of strategic initiatives designed to enhance the customer value proposition through cross-sell, innovation and technology, leading to increased efficiency and productivity across the business. Additionally, a rationalisation of the domestic branch network was carried out to drive operating efficiencies post merger, resulting in a reduction from 125 in December 2016 to 103 branches and cash offices as of December 2017.

The Private Banking and Wealth Management business was reorganised into three distinct segments to enhance the customer experience in the long-term. A new geographical client coverage model was adopted for Elite, Wealth and Private Banking segments, in order to meet customers' needs and help them Grow Stronger. The division also played a prominent role in ADNOC Distribution's successful IPO as a receiving bank.

### New offerings

On the product side, the first FAB branded credit card, the FAB Visa Infinite Credit Card, offering exclusive concierge, travel, dining and lifestyle benefits, was launched in October. A new mobile wallet offering, 'Payit', was launched in February 2018.

PBG was a leading acquirer in the e-commerce space, with strong growth in sales and record merchant sales volumes achieved in the fourth quarter. The Group's 'smart' distribution model is designed to leverage on digital solutions to drive further sales and operating efficiencies. In this space, FAB continued to drive up new mobile banking customers by 25%, with mobile banking transactions rising by 40%. FAB remains the sole manager of the Abu Dhabi National Housing Loan programme, and National Home Loan sales to Emirati customers grew by 67%. In addition, the introduction of transaction banking for National Home Loan customers helped to attract over 1,000 new current account holders.

Business Banking launched a number of new products including Mortgage-Backed Business Finance and bancassurance, leading to an increase of over AED 2.6 billion in liabilities and more than AED 600 million in new assets.

### Recognition

PBG's achievements were regularly recognised during the year, with the Asset Management division winning 'Best Fixed Income Fund of the Year' and 'UAE Asset Manager of the Year' at the MENA Fund Manager Performance Awards 2017, and 'UAE Asset Manager of the Year' from the Global Investor group. Other awards included "Best Seamless Government Experience" and "Digital Leader".

All of this was achieved as PBG employee groups integrated, as well as completing the rebranding of thousands of customer touchpoints in the second half of 2017. The primary objective for PBG was to ensure both a minimal disruption of personal banking services and an optimal retention of customers. The full systems integration for PBG is set to be completed by the end of 2018.

### Looking ahead

In the year ahead, we will work to further consolidate FAB as the dominant personal bank in the UAE and to position it as the regional wealth advisor of choice. A key focus for the PBG team will be the roll-out of the new Target Operating Model for our international operations and aligning P&L responsibilities for PBG with their respective businesses on a global level. This will also enable us to roll-out a standardised PBG platform across all FAB's relevant international locations.

Providing the best customer experience is a key area of focus for PBG to ensure clients' evolving banking needs are met through innovation, digitisation, superior customer service and optimised processes.

### Hana Al Rostamani

Group Head of Personal Banking

“During the year, PBG implemented a number of strategic initiatives designed to enhance the customer value proposition through cross-sell, innovation and technology, leading to increased efficiency and productivity across the business.”

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**7%**Contribution to Group revenue

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**8%**

Market share

FAB Securities ranked #4 amongst  
UAE brokerages

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## Awards

### Banker Middle East

**FAB Securities:** 'Best  
Brokerage Company'**Dubai First:** 'Best Consumer  
Finance Company'

# FAB's network of subsidiaries

FAB's subsidiaries include FAB Properties, Mismak Properties, Aseel Finance, ADNIF (Abu Dhabi National Islamic Finance), Dubai First, First Gulf Libyan Bank and FAB Securities. Offering services ranging from Islamic Finance to Property Management, these operations play an important role in the bank's strategy to provide comprehensive services for different client groups.

2017 marked a successful year for the bank's subsidiaries, as they delivered revenues of AED 1.3 billion and contributed 7% to the Group's total revenues.

We successfully completed the integration of the bank's real estate and property management businesses to create FAB Properties, and the rebranding of the brokerage business into FAB Securities. The integration of Aseel Finance and Abu Dhabi National Islamic Finance (ADNIF) is set to be completed in 2018.

FAB Securities delivered a strong performance in 2017 and ranked fourth among UAE brokerages, with a market share of almost 8%.

In recognition of our leading franchises in brokerage and consumer finance, Banker Middle East named FAB Securities "Best Brokerage Company" for the second year in a row, and Dubai First "Best Consumer Finance Company" for the third consecutive year at its 2017 Industry Awards ceremony.



One bank,  
**one vision, one team**

Governments across the globe have placed sustainability at the top of their national agendas and the UAE is no exception.

“Firmly embedding sustainability within the organisational culture of FAB and conducting business in a responsible way is a key priority for FAB.”



## 10 UNGC Principles

FAB has agreed to align its strategies and operations with the UNGC's 10 Principles

### WE SUPPORT



As the UAE's largest bank, it is our responsibility to support the country's sustainability objectives included in the UAE Vision 2021, the UAE Green Agenda 2015-2030, the Abu Dhabi Economic Vision 2030, and the United Nations' Sustainable Development Goals (SDGs) for 2030 to which the UAE is a signatory.

Firmly embedding sustainability within the organisational culture of FAB and conducting business in a responsible way is, therefore, a key priority for FAB. How we preserve our long-term stakeholder value will be a direct function of our performance in meeting our environmental, social and governance (ESG) goals. We are working to align our business practices and sustainability performance with relevant UN Sustainable Development Goals – a set of 17 global objectives developed by the United Nations, which define the most important global priorities and aspirations for 2030.

Having launched the Grow Stronger movement, we are seeking to demonstrate our commitments through actions. We are developing an enterprise-wide strategy that will ensure balance across FAB's three pillars of sustainability – people, planet and profit – and maximise our ESG performance.

## ESG Index

FAB ranked amongst the top 10 in the S&P/Hawkamah ESG Pan Arab Index in 2017



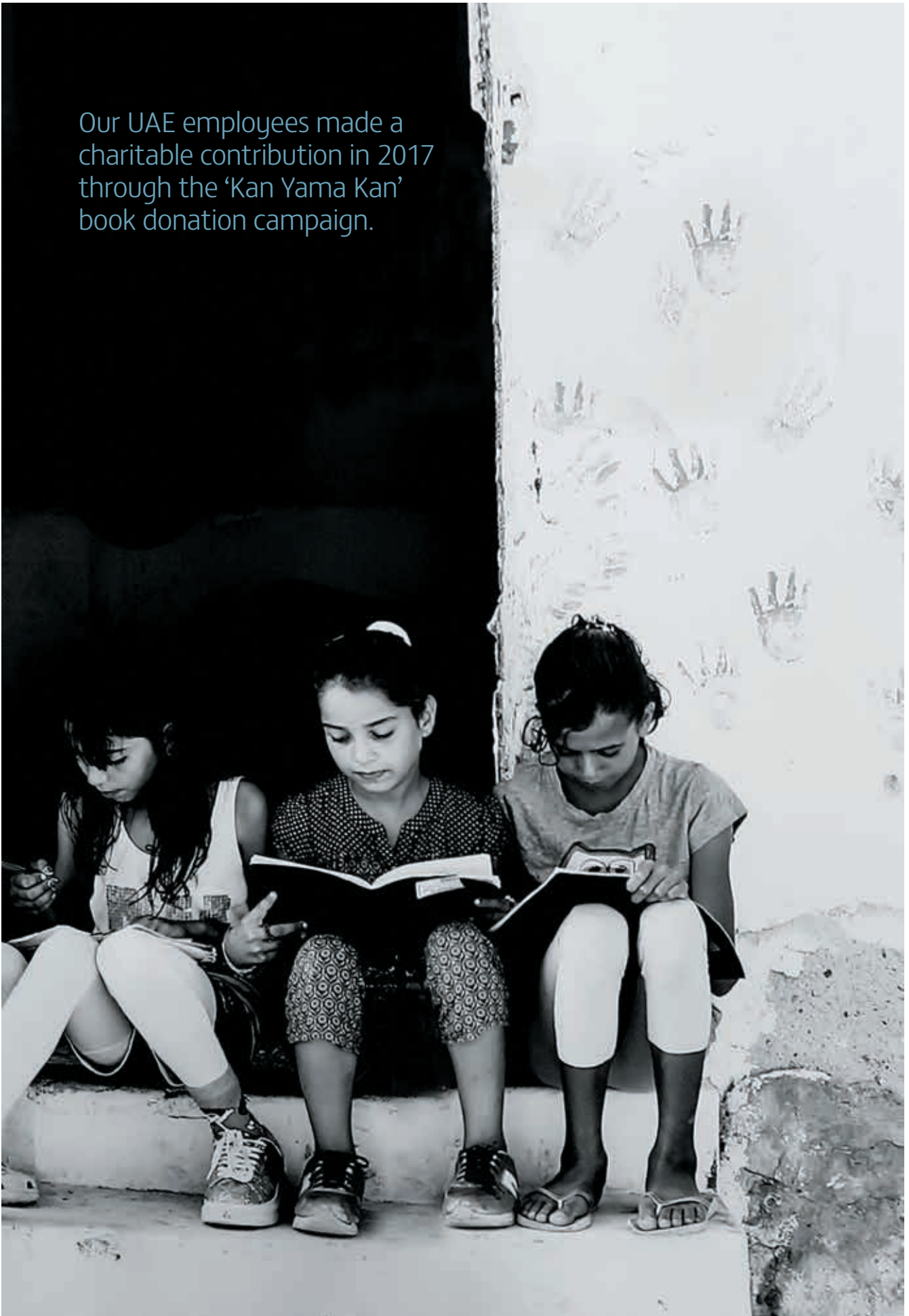
The GRI (Global Reporting Initiative) guidelines, the ISO 14064-3 standard for greenhouse gas emissions (GHG) verification, the UNGC principles, Equator Principles and the Green Bond ICMA principles are the international frameworks we will use to report FAB's ESG performance to ensure we are adhering to best practices.



### Our achievements

Over 6,300 companies with some 55% of global market capitalisation disclosed environmental data to CDP (formerly the Carbon Disclosure Project) in 2017 for independent assessment against its scoring methodology, which evaluates a company's awareness of environmental issues, its management methods, and progress towards environmental stewardship. FAB's climate change response was given an A- score by CDP for 2017, moving us up from Management to Leadership level in recognition of our commitment to addressing climate change and reducing its impact.

Our UAE employees made a charitable contribution in 2017 through the 'Kan Yama Kan' book donation campaign.



“FAB’s climate change response was given an A- score by CDP for 2017, moving us up from Management to Leadership level in recognition of our commitment to addressing climate change and reducing its impact.”

FAB was the only UAE bank to become a signatory to the United Nations Global Compact (UNGC) principles during the year. UNGC is the world’s largest corporate social sustainability initiative, with over 12,000 signatories across 170 countries. By signing this Compact, FAB has agreed to align its strategies and operations with the UNGC’s 10 Principles – encompassing human rights, labour regulations, the environment and anti-corruption – and take actions that advance societal goals.

FAB was also ranked amongst the top ten in the S&P/Hawkamah ESG Pan Arab Index in 2017, which provides a measure of total organisational performance by linking stock market success to ESG indicators.

FAB is represented on a number of national sustainability committees and task forces, such as the UAE Council for Climate Change and Environment, Emirates Foundation Programs’ Advisory Committee on Civic Engagement, The Ministry of Climate Change and Environment’s Technical Committee on Green Development & Climate Change, the Sustainable Finance Steering Committee as part of the Dubai Declaration and the Technical Committee for the World Future Energy Summit 2018.

Given our deep relationships with corporates and institutions across the country, we are able to advise on how policies and initiatives can be turned into action by the UAE business community.

### Community initiatives

Our UAE employees made a charitable contribution in 2017 through the ‘Kan Yama Kan’ book donation campaign. The campaign aims to provide stationery and mobile libraries for children living in areas with limited or no access to books due to social or natural crises or unrest and wars. The response exceeded the initial target with over 2,500 book donations made by FAB employees across the UAE.

FAB’s sustainability commitments extended to its international offices as well. In 2017, FAB Egypt was involved in a number of community initiatives including charity fund-raising for an underprivileged school, and donation of winter clothes and provisions for four orphanages during Ramadan. FAB Egypt’s sustainability champions regularly provide tips to employees, outlining how they can reduce water and energy consumption, waste production and recycle materials. Motion-sensor lighting has also been installed on the premises to save energy.

# 2,500

Book donations made by FAB employees across the UAE

# 2018

The “Year of Zayed” in the UAE, we will focus on delivering our core sustainability initiatives

### The year ahead

As we enter 2018, the “Year of Zayed” in the UAE, we will focus on delivering our core sustainability initiatives, which include conducting materiality analysis and assessing, monitoring and reporting our sustainability performance. We will also roll out a stakeholder engagement programme to better understand how we can meet the expectations and needs of our customers, investors and staff. In addition, we will be pursuing initiatives with the Emirates Foundation that will make tangible, positive contributions to UAE society.

“Our long-term objective is to grow in strength through our sustainability journey, positioning FAB as a highly visible and successful regional leader and a partner of choice in sustainability best practice.”

Our people;  
**our most valuable asset**







“At FAB, our people are our most valuable asset and we are committed to creating an environment where they can leverage their strengths and excel in their performance.”

At FAB, our people are our most valuable asset and we are committed to creating an environment where they can leverage their strengths and excel in their performance. Equally, as the UAE's leading bank, we want FAB to be seen as the employer of choice in our sector, and a place where successful careers can be built for high performing talented individuals.

Since we started our new journey in 2017, it has been our endeavour to gain the unwavering support of FAB's workforce to the bank's new strategy, vision and values.

Finalising the organisational structure and operating model of FAB while maintaining optimal customer service levels and responsiveness was a key challenge of the merger process. This challenge was met and delivered by the leadership team early on in the integration journey. Combining talent from both organisations, the bank quickly announced a strong and experienced leadership team to successfully execute its strategic agenda while maximising value for the customers and shareholders alike across both the businesses.

The initial priorities were quickly recognised as identifying and retaining key talent for appropriate roles across the bank, and ensuring that all employees were fully aligned with the bank's strategic intentions.

Policies and procedures, which form the bedrock of our Employee Value Proposition, were harmonised for FAB and a total compensation approach was adopted. This was supported by ensuring that we benchmarked ourselves competitively with comparable GCC banks and similar institutions.

Furthermore, a comprehensive recognition programme was rolled out to help employees acknowledge those excelling in their performance, contributing to the creation of the new bank and recognising those who were exemplars of our values.

# 5,393

Total Number of Employees

# 89

Number of Nationalities

The launch of FAB's new brand identity was a key milestone in the integration journey, designed to drive cultural integration, employee engagement and organisation alignment with our new core values of Customer First, Trusted, Knowledgeable, Collaborative and Enterprising.

Early in 2018, an employee survey showed that over 70% of our staff indicated a "high engagement" score and a belief in the strategic intent and values of the bank along with the willingness to recommend FAB as an Employer of Choice. Employee engagement rose by 8% compared to the legacy banks' results in 2016, with "pride in working at FAB" being the most favourable. Ensuring high employee engagement will remain a key focus for the bank moving forward.

As the largest bank in the UAE, FAB is firmly committed to developing UAE talent. The Emiratisation ratio stood at 31%, placing the bank among the top performers in the UAE banking sector.

If 2017 was about creating the hard-wiring of a new organisation, implementing its organisational design, operating model and populating the bank with our best talent; 2018 will be about the transformation of the new bank into a highly efficient, ambitious world class organisation with a unique and compelling culture. As the business in FAB gathers momentum and leverages its scale on a local, regional and international level, we aim to grow and develop our people to meet the bank's strategic aspirations.

### FAB workforce\*

Total Number of Employees (FTE)	5,393
Number of UAE based Employees	4,116
Number of International Employees	1,277
Percentage of Women in the Workforce	34%
Number of Nationalities	89
Emiratisation	31%

\* Full time employees (FTE), excludes outsourced and other contract staff

### Learning and Development

The learning programmes delivered in 2017 include Integration learning courses, Business related programmes and certifications in addition to external training programmes offered by the Emirates Institute for Banking and Financial Studies (EIBFS) and other reputed learning providers. In 2018, a key focus for the bank will be on delivering tailored and market-leading courses to staff through its Business School.

### Employee wellbeing programme

FAB has its very own employee wellbeing programme, a personal support line that provides employees with access to professional counsellors 24/7, 365 days of the year.

### The FAB Club

FAB introduced its new employee club which provides employees and their family members with various exciting and engaging opportunities to get together and engage in fun activities and events that include sporting activities, movie nights, family days, charity events and fitness classes, and also avail a wide range of special offers and discounts.





# Ensuring strength, preserving safety

## Risk Management objectives

The ultimate goal of Risk Management is to ensure the bank's strength, preserve its safety, and enable ongoing creation of shareholder value. It establishes controls and provides oversight to identify potential risks and gauge the effectiveness of related functions and policies.

The Risk Management vision of FAB is to institutionalise a best in class, enterprise-wide, integrated risk and compliance framework which is aligned with the Group's vision to drive consistent value for all of the Group's stakeholders through the optimisation of risk and reward.

Ensuring the continuing effectiveness of its risk regime was a primary objective for FAB during the transitional period of the merger in 2017, and the Group Chief Risk Officer played a critical role in the Integration Steering Committee for the new bank. To achieve this during the transition period, the Risk team put in place sound fundamentals and a strong bearing capacity to withstand all financial as well as non-financial risks. They also worked to forge a strategic alignment and an enduring partnership with business units for the formulation and execution of business strategies, integrating the corporate and risk governance framework for the effective oversight of business performance and ensuring a robust risk infrastructure to manage enterprise-wide risks in a holistic manner.

Within this framework the team focused on the adoption of a unified risk culture across all locations within the bank, as well as risk-based performance management metrics.

## Lines of Defence

FAB follows a "three lines of defence" model, which is central to its risk management framework.

The **first line** is represented by business divisions as well as enabling functions, which identify and manage risk in their day-to-day activities by ensuring that activities are within the Group's risk appetite and in compliance with all relevant internal policies and processes.

The **second line** comprises Group Risk (made up of functional risk units such as Enterprise Risk, Credit Risk, Market and Liquidity Risk, Operational and Fraud Risk, Information Security and Business Continuity) and Compliance and Legal, all of which adopt risk controls comprising policies, frameworks, processes and analytical tools, whilst also providing oversight, independent to the first line of defence.

The **third line** is performed by internal audit which provides independent assurance to senior management and the Board over the design and operation of the Group's risk management, governance and controls.

## Risk governance

### Board Risk and Compliance Committee ("BRCC")

BRCC comprises three members of the Board and the GCEO and is responsible for recommending and setting the Group risk strategy, risk appetite and policy guidelines, in addition to monitoring adherence. This committee meets on a quarterly basis or more frequently as deemed necessary. The Group Chief

Risk Officer is a permanent attendee of the BRCC. It provides oversight and advice to the Board in relation to current and potential future risk exposures of the Group, and advocates future risk strategy, including determination of risk appetite and tolerance and promoting a risk awareness culture across the Group.

### Group Risk & Compliance Committee ("GRCC")

GRCC is a management level committee and assists the BRCC. The GRCC defines, develops and monitors the Group's risk appetite taking into account the Group's strategy and business planning. In addition, the GRCC is accountable to highlight, discuss and monitor key regulations, both local and international and as they apply to all businesses where the Group operates. The GRCC reports relevant matters to the Executive Committee and as appropriate to the BRCC, advising and informing them on the Group's risk appetite and framework and on key compliance and other regulatory risk matters.

### Operational Risk Committee ("ORC")

Sub-committee overseeing the Bank's operational and fraud risk management responsibilities.

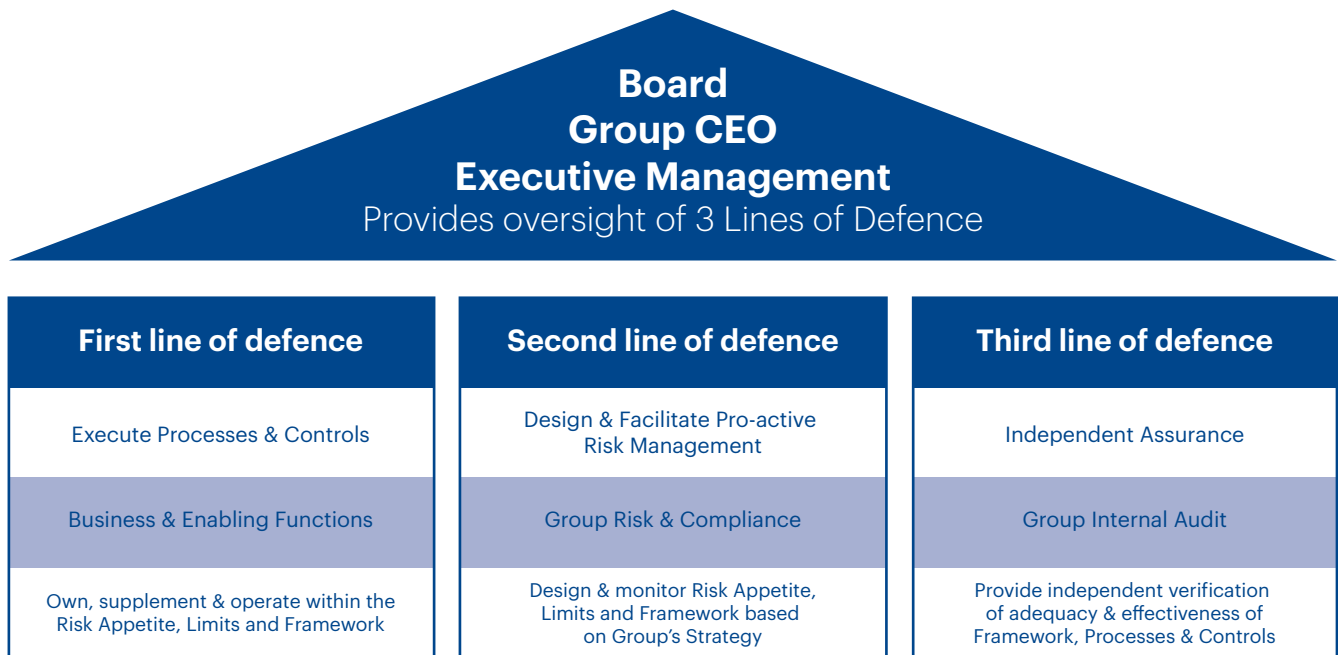
### Informational Technology/Information Security Risk Committee

Sub-committee overseeing matters relating to information security and Business continuity to protect the bank's information.

### Compliance Committee

Sub-committee overseeing the bank's regulatory and compliance responsibilities.

Three Lines of Defence



**Group Asset Liability Management Committee (“GALCO”)**

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

**Key Risk progress**

During the transition year amidst the integration process, significant progress was made to embed the Risk strategy for FAB. These included adoption of the policy framework post rationalisation, roll out of revised target operating model and governance mechanism post-merger, and the creation of a comprehensive Enterprise-wide Risk & Compliance Management Framework. Enterprise Risk Management policies were harmonised and rolled out and the risk appetite statement for the combined bank was finalised and disseminated with appropriate metrics.

In addition, risk methodologies, models and tools were harmonised, with “go-to” risk systems yet to be incorporated in the overall integration roadmap.

**Highlights**

FAB is proud of its rating as the safest bank in the Middle East, and its AA- rating or equivalent (from global credit rating agencies namely Moody’s, S&P & Fitch) puts it firmly alongside the best of the world’s banks. To a large extent, this reflects the work done by the bank in establishing a sound governance structure, ensuring a strong control mechanism through three lines of defence, promoting a unified risk culture and risk based performance management, establishing a robust risk infrastructure for effective decision making and following the principle of zero tolerance for non-compliance to regulations. FAB’s reputation and international ratings in the coming year will equally be supported by the continuation and further strengthening of a successful Risk Management strategy.

**FAB Principal Risks**

- Integration risk
- Regulatory risk
- Information Technology/ Information Security risk
- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Geopolitical risk
- Strategic risk
- Reputation risk

Note: More information can be found in the Risk Management section of the notes to the Audited Financial Statements for the year ended 31 December 2017.

## Board of Directors



### **H.H. Sheikh Tahnoon Bin Zayed Al Nahyan**

#### **Chairman**

National Security Advisor  
Chairman of Royal Group



### **H.E. Nasser Ahmed Alsowaidi**

#### **Vice Chairman of the Board**

Chairman of ETECH



### **H.E. Khaldoon Khalifa Al Mubarak**

#### **Board Member**

CEO and MD of Mubadala Investment Company  
Chairman of the Executive Affairs Authority of the Government of Abu Dhabi



### **H.E. Khalifa Sultan Al Suwaidi**

#### **Board Member**

Executive Director at the Abu Dhabi Investment Council (ADIC)  
Board Member of UNB, ADIC and Barakah One



### **H.E. Sheikh Mohammed Bin Saif Bin Mohammed Al Nahyan**

#### **Board Member**

Chairman of Abu Dhabi National Insurance Company (ADNIC)  
Chairman of Risk Management Committee of ADNIC



### **H.E. Sheikh Ahmed Mohammed Sultan Al Dhaheri**

#### **Board Member**

Chairman of Bin Suroor Engineering  
Vice Chairman of Abu Dhabi National Hotels Company



**H.E. Mohammed Thani  
Al-Romaithi**

**Board Member**

Chairman of the Federation of UAE  
Chambers of Commerce and Industry  
Board Member of Al Etihad Credit Bureau



**H.E. Mohamed Saif  
Al Suwaidi**

**Board Member**

Director General of Abu Dhabi Fund  
for Development  
Board Member of DP World and Agthia



**H.E. Jassim Mohammed  
Al Siddiqi**

**Board Member**

CEO and MD of Abu Dhabi Financial  
Group (ADFG)  
Chairman of Shuaa and Eshraq Properties

**Senior Management**



**Abdulhamid Saeed**

Group Chief Executive Officer

**André Sayegh**

Deputy Group CEO & Group  
Head of Corporate and  
Investment Banking

**Zulfqar Ali Sulaiman**

Group Head of International  
Banking & Group Chief  
Operating/Integration Officer

**Arif Shaikh**

Group Chief Risk Officer

**Karim Karoui**

Group Head of Subsidiaries,  
Strategy and Transformation

**Hana Al Rostamani**

Group Head of Personal  
Banking

**James Burdett**

Group Chief Financial Officer

**Fadhel Al Ali**

Group Chief Customer  
Experience and Digital Officer

**Shirish Bhide**

Group Chief Credit Officer

**P K Medappa**

Group Chief People Officer

**Nurendra Perera**

Acting Group Chief  
Audit Officer

### Introduction

First Abu Dhabi Bank P.J.S.C. (“**FAB**” or “**the Bank**”) is a public joint stock company and is the product of the Merger (**the “Merger”**) of First Gulf Bank P.J.S.C. (“**FGB**”) and National Bank of Abu Dhabi P.J.S.C. (“**NBAD**”) which was effected on 30 March 2017.

On 24 April 2017, the shareholders of NBAD passed the necessary resolutions at its general assembly meeting to approve a change in its registered name to First Abu Dhabi Bank P.J.S.C. The change of name to First Abu Dhabi Bank P.J.S.C. became effective from 25 April 2017.

### Corporate Governance

The Bank recognises that a well-considered and established corporate governance structure helps improve decision making and also helps ensure better relations with stakeholders through improved transparency and better quality disclosures. FAB is committed to high standards of corporate governance, business integrity and professionalism. Its developing corporate governance framework is aligned with the company’s strategic objectives and reflects best practice and applicable regulatory guidelines, including those of the Central Bank of the UAE (CBUAE) and its other regulators.

The Bank’s overarching corporate governance protocols are driven by the responsibility and leadership of the Board to direct the Group’s affairs and set its objectives. FAB is also driven by the selection of productive strategies and management of risk, the appropriate delegation and monitoring of power and accountability (to management), by acting as a sounding board and advisor to the Group Chief Executive, satisfying the interests of stakeholders through transparent and material disclosures. In addition, the Bank operates in complete compliance with all regulatory obligations and engages positively and transparently with the community and its customers.

### High level overview of the FAB Corporate Governance structure

The Bank is governed by a framework of boards and committees. The company’s corporate governance framework sets out a clear responsibility structure for the Board and Board Directors, Board Committees, the Executive Committee and its supporting Management Committees, and the organisation’s support and control functions.

### Board of Directors

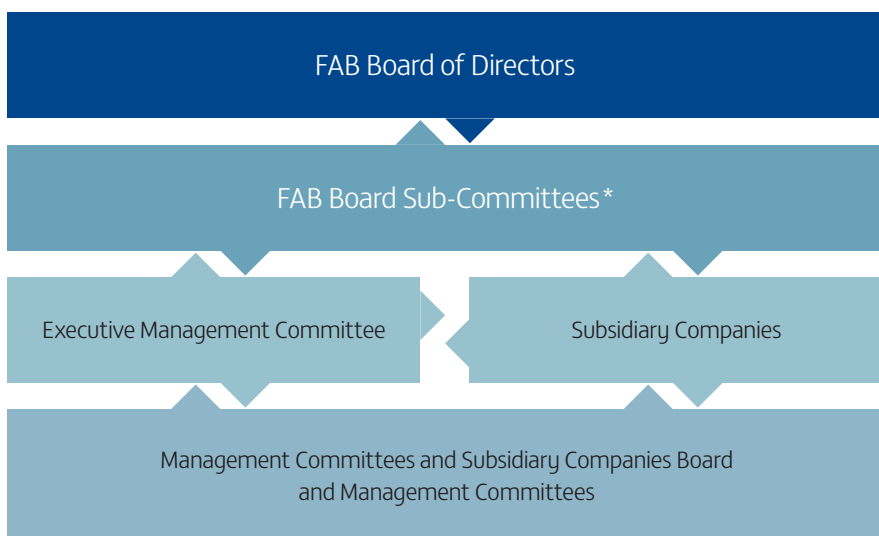
In accordance with FAB’s Articles of Association and Federal Law No.2 of 2015 concerning Commercial Companies, FAB Board of Directors consists of 9 members.

The composition of the Board satisfies the generally acceptable corporate governance practice relating to the separation of Chairman and Group Chief Executive and the majority membership of non-executive directors. The Board considers that a Director is independent if neither himself nor any of his first degree relatives have been a member of the Senior Management of FAB during the last two years or has a relationship that creates any financial transactions or deals with FAB or any of its subsidiaries totaling a value of 5% of the paid-up capital of FAB, or exceeds AED 5 million (or an equivalent amount in a foreign currency, whichever is less).

The Board of FAB has overall responsibility for directing the Group’s affairs, to create and preserve value through the Group’s operations, and to consider the shareholders’ and other stakeholders’ interests. It has documented its roles and responsibilities in a Board Charter and associated policies. The Board is responsible for making delegations to the management, including the definition, scope, frequency and nature of powers.

Aside from certain authorities and powers reserved by the Board for its own decision-making, the Group Chief Executive is delegated full responsibility for the management, operations and compliance of FAB. To satisfy its oversight role, the Board has defined a clear control structure, which monitors the management activities, in addition to creating supporting controls and reporting structures both internal and external to the firm. The delegation and control structure is also subject to compliance with, and oversight by, regulators and third parties, including the Central Bank of the UAE and the Securities and Commodities Authority of the UAE and regulators in jurisdictions where FAB operates.

### FAB Corporate Governance Structure



Note: Arrows indicate flow of information and not reporting lines

\* The Bank also operates a Shariah Supervisory Board which advises all relevant parts of FAB Businesses on key aspects of its Islamic activities



### Board Sub-Committees

To enable the Board to carry out its objectives, authority will be delegated to the committees appointed by the Board as required. The Board has established the following 4 Board Sub-Committees:

- 1 Board Management Committee
- 2 Board Audit Committee
- 3 Board Risk and Compliance Committee
- 4 Board Remuneration and Nomination Committee

Each of these committees remains an integral part of the Board and its members are Directors of the Board. The remit of these committees is to consider topics in greater detail, to manage conflicts of interest, to satisfy regulatory requirements, provide leadership, satisfy the interests of shareholders and offer management oversight to ensure the proper governance of the Group. The Terms of References, Mandates and Charters of these committees are reviewed on a yearly basis, to align more closely with the changing structure of the Group.

### Shariah Supervisory Board

FAB is supervised from a Shariah perspective by a Shariah Supervisory Board (SSB) who are appointed by the Board of Directors of the Bank. The SSB consists of renowned and qualified Shariah scholars who are responsible for reviewing and ensuring that all of the Bank's Islamic banking products, services and operations are in compliance with Shariah principles. The SSB also supervises the Bank's Islamic subsidiaries i.e. Abu Dhabi National Islamic Finance Pvt.JSC (ADNIF) and Aseel Finance Pvt.JSC (Aseel Finance) in all matters related to Shariah.

Internally and with the endorsement of the SSB, FAB has established an Internal Shariah Unit (ISU) consisting of personnel qualified in Shariah and Islamic banking. The ISU is responsible for managing and performing all Shariah-related functions including Shariah Review, Advisory and Structuring, Shariah Secretariat to the SSB, Shariah Research and Training, Shariah Audit and Shariah Risk Management.

### Management Committees

FAB has a number of management committees, including the Executive Management Committee. These management committees' structures help drive senior level management decision making within the company across a range of matters including the management of strategic, financial, capital, risk, operational and people issues affecting FAB. The composition, guiding principles and detailed roles and responsibilities of all FAB's management committees are set out in their respective charters.

### Subsidiary company governance

Dubai First, Aseel Finance, Abu Dhabi National Islamic Finance (ADNIF), Abu Dhabi National Properties (ADNP), First Gulf Properties (FGP), First Abu Dhabi Securities are regulated subsidiary companies of FAB and each operates within the company's overarching corporate governance framework. FAB subsidiary companies operate corporate governance arrangements suitable for their business and they all have their own Board of Directors and Board Committees.

To assist, guide, direct and challenge senior management of FAB subsidiary companies, the Board of Directors consists of senior professionals with substantial banking, finance and risk experience. The Boards of Directors of FAB subsidiary companies have a majority of UAE Nationals as required under the UAE Commercial Companies Law, in line with FAB's commitment to developing the leadership skills of Emiratis.

### Regulatory compliance

FAB is regulated by the Central Bank of the UAE and is therefore required to comply with its regulations, circulars and notices. In addition, FAB is required to comply with all applicable laws and regulations of the UAE, including without limitation, the UAE Commercial Companies Law, rules and standards established by the Securities and Commodities Authority (SCA) of the UAE and the Bank's Articles of Association. It is also mandated to comply with all international regulations in all jurisdictions where the Bank operates. Senior management has the responsibility to ensure compliance with applicable laws and regulations and report on such matters to the Board.

The Board provides guidance and oversight in terms of risk appetite, significant compliance and risk strategies and dealing with compliance and risk outcomes.

### Codes of Conduct

The Board has mandated Codes of Conduct, which apply to Directors, employees and subsidiaries of FAB. The codes encourage appropriate behaviour, define inappropriate behaviour and the process and outcomes for the identification and reporting of these actions. Consistent with FAB's approach to employ high standards for transparency and disclosure for the benefit of shareholders and other stakeholders, FAB publishes a wide range of reports containing financial and non-financial data through its Investor Relations function, in addition to disclosures required for regulatory purposes.

FAB has established a number of functions committed to engagement and communication with external stakeholders. These include Investor Relations, sustainability, and Corporate Governance. In addition, internal transparency and disclosure is considered from operational, ethical and regulatory perspectives, ensuring that staff are aware of FAB developments, strategies, risks and their personal responsibilities and duties, whilst protecting customer and personal data confidentiality, sensitive information and confidential commercial data. Shareholder rights and interests include reserved powers in the UAE Commercial Companies Law and FAB Articles of Association and are supported by the duty of the Board to act in the interest of the Company. FAB acknowledges that there are diverse interests within the shareholder base and that the Board considers such interests when determining the objectives and strategies for the Group.

### Recognition and achievements

FAB was among the top 10 companies in the re-balanced Hawkamah Pan Arab ESG Index of 100+ listed organisations from various industries in the Middle East and Africa region on its environmental, social and corporate governance practices. The Bank, in conjunction with the UAE Banks Federation (UBF), is in discussions to contribute to the upcoming Central Bank of the UAE Corporate Governance Regulation.

## 2017/2018 Financial Calendar

Date	Event
02/04/2017	Merger completion/trading of new shares
19/04/2017	Q1 2017 Financial Results Announcement
24/04/2017	GAM to approve name change to First Abu Dhabi Bank (FAB)
26/07/2017	Q2/H1 2017 Financial Results Announcement
25/10/2017	Q3/9M 2017 Financial Results Announcement
29/01/2018	Q4/FY 2017 Financial Results Announcement
25/02/2018	General Assembly Meeting
06/03/2018	Ex-Dividend Date

## FAB Share Information

Listing date	2000*
Exchange	Abu Dhabi Securities Exchange (ADX)
Symbol	FAB (previously NBAD)
ISIN	AEN000101016
Number of shares issued	10,897,545,318
Closing Price as of 31 Dec 2017	AED 10.25
Market cap as of 31 Dec 2017	AED 111.7Bn (USD 30.4Bn)
Foreign Ownership Limit	25%

\* This is referring to the listing date of NBAD shares on ADX

## Shareholder Returns & Share Price Information

Description	FAB 2017 (Pro forma)
Returns to shareholders <sup>1</sup> :	
Capital Gains <sup>2</sup>	2.6%
Cash Dividend Yield	6.8%
Stock Dividends (Bonus shares) <sup>3</sup>	–
Cash Dividend (AED/share)	0.70
Total Cash Dividends (AED Bn)	7.6
Cash Dividend Payout	70%
Market Capitalisation (AED Mn)	111,700
Number of shares issued (Mn)	10,898
Price to Tangible Earnings ratio (on Basic EPS)	10.3x
Price to Tangible Book ratio	1.6x
Share Price (AED/share):	
High	11.55
Low	9.72
Closing as of 31 Dec 2017	10.25
Daily Average Volume (shares)	2,864,449
Relative Returns (capital gains):	
FAB vs ADX return	5.9%
FAB vs ADX Banks' return	3.3%

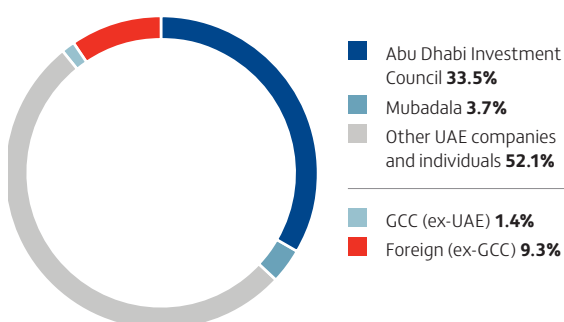
- 1 Based on Issued Shares
- 2 Percentage change in price during the year (31 Dec'16 – 31 Dec'17)
- 3 Shown as a percentage of face value

Source: Bloomberg and FAB Pro forma Financials

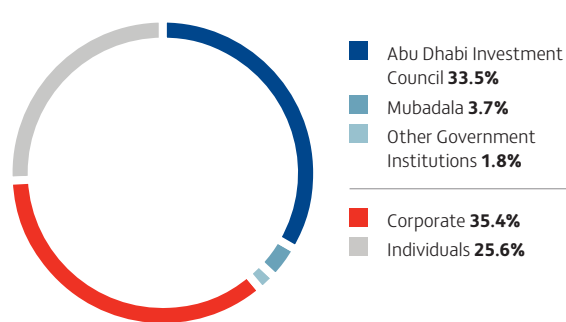
## Ownership Structure as of December-end 2017<sup>1</sup>

As of 31 December 2017, FAB's share capital stood at AED 10,897,545,318 divided into 10,897,545,318 shares of AED 1 each.

### FAB Shareholding<sup>1</sup> by Nationality



### FAB Shareholding<sup>1</sup> by Category



<sup>1</sup> Based on total outstanding number of shares (Issued less Treasury shares of 42,433,737)

Foreign ownership is restricted to 25% of the total shares listed on the exchange

### FAB Share Price Performance vs. UAE indices<sup>1</sup> (rebased)



<sup>1</sup> Rebased to FAB share price as at 31 December 2016

Source: Bloomberg

### FGB-NBAD Merger

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

FGB shares were delisted from the Abu Dhabi Securities Exchange and on 2 April 2017 NBAD issued 5,643 million new shares to the shareholders of FGB. Following the completion of the merger, FGB shareholders owned approximately 52 percent of the combined bank and NBAD shareholders owned approximately 48 percent.

Upon the effective date of the merger, assets and liabilities of FGB were automatically vested into NBAD in consideration for the issue of shares in the new NBAD entity to existing FGB shareholders. On 24 April 2017, the shareholders approved the proposal to change the name of the combined bank to ‘First Abu Dhabi Bank’.

## Pro forma Income Statement (AED Mn)

	Note	FY2017	FY2016
Net interest income	a	<b>13,106</b>	13,550
Net fees and commission income		<b>3,362</b>	3,886
Net FX and investment income	a	<b>2,586</b>	2,023
Other operating income		<b>479</b>	844
<b>Operating income</b>		<b>19,533</b>	20,302
General, administration and other operating expense incl.		<b>(5,875)</b>	(5,922)
– Integration Costs / Merger transaction-related costs	b	<b>(463)</b>	(178)
– Amortisation of intangibles (merger related)		<b>(138)</b>	–
Net impairment charge		<b>(2,384)</b>	(2,664)
Overseas income tax expense		<b>(324)</b>	(351)
Non-controlling interests		<b>(35)</b>	(44)
<b>Net profit attributable to shareholders</b>		<b>10,915</b>	11,322
Basic Earning Per Share – Annualised (AED)	c	<b>0.96</b>	1.00

## Pro forma Balance Sheet (AED Bn)

	Note	FY2017	FY2016
<b>ASSETS</b>			
Cash and balances with central banks		<b>138.1</b>	123.4
Investments		<b>107.8</b>	104.2
Due from banks and Reverse repurchase agreements		<b>35.2</b>	31.6
Loans and advances	d	<b>330.5</b>	334.4
Other assets		<b>37.5</b>	41.1
Intangibles		<b>19.9</b>	14.3
<b>Total assets</b>		<b>669.0</b>	649.1
<b>LIABILITIES</b>			
Due to banks and Repurchase agreements		<b>68.3</b>	78.0
Commercial paper		<b>24.1</b>	13.7
Customer accounts and other deposits	d	<b>395.8</b>	379.2
Term borrowings/Subordinated notes		<b>42.6</b>	47.2
Other liabilities		<b>36.0</b>	33.6
<b>Total liabilities</b>		<b>566.8</b>	551.7
<b>Total equity</b>		<b>101.7</b>	97.0
Non-controlling interest		<b>0.5</b>	0.4
<b>Total liabilities and equity</b>		<b>669.0</b>	649.1

## Segmental Information by Business (AED Mn)

	FY2017	FY2016
<b>Corporate &amp; Investment Banking</b>		
Operating Income	9,375	9,817
Profit after taxes	6,876	7,201
<b>Personal Banking</b>		
Operating Income	6,862	7,460
Profit after taxes	2,335	2,401
<b>Subsidiaries</b>		
Operating Income	1,309	1,662
Profit after taxes	220	731
<b>Head Office</b>		
Operating Income	1,988	1,363
Profit after taxes	1,519	1,033

## Segmental Information by Geography (AED Mn)

	FY2017	FY2016
<b>UAE</b>		
Operating Income	17,101	17,734
Profit after taxes	9,768	9,781
<b>International</b>		
Operating Income	2,432	2,569
Profit after taxes	1,182	1,585

## Key Ratios (%)

	Note	FY2017	FY2016
Net Interest Margin	a	2.49	2.55
Cost-Income ratio (ex-integration costs)		27.7	28.3
Cost of Risk (CoR) (bps)	h	69	76
Non-performing loans ratio	i	3.1	2.7
Provision coverage	i	120.1	124.6
Loans-to-deposits ratio	d	83.5	88.2
Return on Tangible Equity (RoTE)	f	14.8	15.7
Return on Risk-weighted Assets (RoRWA)		2.3	2.3
CET1 ratio	g	14.5	14.8
Capital Adequacy ratio	g	17.8	18.2

### Notes:

- Negative interest income booked on some placements has been reclassified to net FX income; NIM has been restated accordingly
- Integration costs prior to 2017 are merger transaction-related costs
- Basic EPS based on attributable profits to equity shareholders' excluding Tier-1 notes coupon and outstanding shares
- Restated net of National Housing Program loans and deposits
- Tangible equity is shareholders' equity net of Tier-1 capital notes, goodwill & intangibles
- Return on Average Tangible Equity, annualised; based on attributable profit to equity shareholders' excl coupon on Tier-1 capital notes (AED 465Mn – FY'17) and amortisation of intangibles (AED 159 Million – FY'17)
- As per UAE Central Bank's Basel III framework without considering the transitional arrangements for 2017; figures prior to Dec 2017 are based on UAE CB's Basel II framework; CET1 ratio is based on Tier-1 capital net of perpetual notes as a percentage of risk weighted assets
- Loan-related impairment charges (net) as a percentage of average gross loans and advances (net of interest in suspense)
- Gross loans and advances net of interest in suspense

Note: Rounding differences may appear in the above table



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بنك أبوظبي الأول

**FAB**  
First Abu Dhabi Bank



# Pro forma Condensed Consolidated Financial Statements

For the financial year ended 31 December 2017



بنك أبوظبي الأول

**FAB**

First Abu Dhabi Bank



## PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The Pro forma financial statements consists of the audited Pro Forma Condensed Consolidated Statement of Financial Position of NBAD and FGB (together referred to as “the Group”) as at 31 December 2017, and its audited Pro forma Condensed Consolidated statement of Profit or Loss for the year then ended. These statements are prepared as if the Merger has taken place as at 1 Jan 2016.

The purpose of the Pro forma financial statements is to show the material effects that the Merger of NBAD and FGB would have had on the historical consolidated statement of financial position if the Group had already existed in the structure created by the Merger as at 31 December 2017 and on the historical consolidated statement of profit or loss for the financial year ended 31 December 2017. They are not representative of the financial situation and performance that could have been observed if the indicated business combination had been undertaken at an earlier date.

The presentation of the Pro forma financial statements of the Group is based on certain pro forma assumptions and has been prepared for illustrative purposes only and, because of its nature, the pro forma consolidated statement of financial position and financial performance addresses a hypothetical situation and, therefore, does not represent and may not give a true picture of the financial position and financial performance of the Group. Furthermore, the Pro forma financial statements are only meaningful in conjunction with the historical consolidated financial statements of NBAD and FGB as at and for the financial year ended 31 December 2016.

The Pro forma financial statements have been compiled based on the accounting policies adopted by the Group for the preparation of 31 December 2017 financial statements. Any impact due to change in the accounting policy and adjustment have been reflected in prior comparative periods. The Pro forma financial statements does not take into consideration the effects of expected synergies or costs incurred to achieve these synergies as a result of the Merger. The Pro forma financial statements gives no indication of the results and future financial situation of the activities of the Group.

## Pro forma Condensed consolidated statement of financial position

As at 31 December

Assets	2017 AED'000	2016 AED'000
Cash and balances with central banks	138,111,054	123,441,316
Investments at fair value through profit or loss	19,320,764	11,381,851
Due from banks and financial institutions	13,829,490	17,308,257
Reverse repurchase agreements	21,346,974	14,278,842
Derivative financial instruments	11,399,432	13,796,739
Loans and advances	330,465,888	334,430,035
Non-trading investments	88,457,710	92,855,423
Investment properties	6,927,692	6,468,106
Property and equipment	3,535,501	4,594,230
Intangibles	19,901,374	14,304,189
Other assets	15,672,416	16,261,635
<b>Total assets</b>	<b>668,968,295</b>	<b>649,120,623</b>
<b>Liabilities</b>		
Due to banks and financial institutions	30,576,336	48,401,950
Repurchase agreements	37,674,016	29,594,535
Commercial paper	24,124,097	13,725,897
Derivative financial instruments	14,941,331	16,040,059
Customer accounts and other deposits	395,843,664	379,165,290
Term borrowings	42,145,718	46,830,945
Subordinated notes	420,381	355,987
Other liabilities	21,033,339	17,571,983
<b>Total liabilities</b>	<b>566,758,882</b>	<b>551,686,646</b>
<b>Equity</b>		
Share capital	10,897,545	10,897,545
Share premium	53,026,644	52,771,684
Treasury shares	(42,433)	(48,746)
Statutory and special reserves	7,081,074	5,254,545
Other reserves	962,736	725,067
Tier 1 capital notes	10,754,750	10,754,750
Share option scheme	256,265	228,349
Convertible notes - equity component	108,265	108,265
Retained earnings	18,677,552	16,309,736
<b>Total equity attributable to shareholders of the Group</b>	<b>101,722,398</b>	<b>97,001,195</b>
Non-controlling interest	487,015	432,782
<b>Total Equity</b>	<b>102,209,413</b>	<b>97,433,977</b>
<b>Total liabilities and equity</b>	<b>668,968,295</b>	<b>649,120,623</b>

## Pro forma Condensed consolidated statement of profit or loss

For the year ended 31 December

	Note	2017 AED'000	2016 AED'000
Interest income	1	18,846,918	18,687,450
Interest expense	2	(5,740,867)	(5,137,679)
<b>Net interest income</b>		<b>13,106,051</b>	<b>13,549,771</b>
Fee and commission income		4,765,261	5,287,914
Fee and commission expense		(1,403,397)	(1,401,978)
<b>Net fee and commission income</b>	3	<b>3,361,864</b>	<b>3,885,936</b>
Net foreign exchange gain	4	1,003,284	1,053,368
Net gain on investments and derivatives	5	1,582,442	969,792
Other operating income	6	479,344	843,517
<b>Operating income</b>		<b>19,532,985</b>	<b>20,302,384</b>
General, administration and other operating expenses	7	(5,875,349)	(5,922,299)
<b>Profit before net impairment charge and taxation</b>		<b>13,657,636</b>	<b>14,380,085</b>
Net impairment charge	8	(2,384,334)	(2,663,691)
<b>Profit before taxation</b>		<b>11,273,302</b>	<b>11,716,394</b>
Overseas income tax expense		(323,538)	(350,552)
<b>Net profit for the period</b>		<b>10,949,764</b>	<b>11,365,842</b>
Profit attributable to:			
Shareholders of the Group		10,915,157	11,322,268
Non-controlling interests		34,607	43,574
		<b>10,949,764</b>	<b>11,365,842</b>

## Segmental information

	Business Segment					Geographic Segment				
	Corporate and Investment Banking AED'000	Personal Banking AED'000	Subsidiaries AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Middle East And Africa AED'000	Europe and Americas AED'000	Asia - Pacific AED'000	Total AED'000
<i>For the year ended 31 December 2017</i>										
Net Interest income	5,853,942	5,094,817	566,567	1,590,725	<b>13,106,051</b>	11,503,407	611,806	716,768	274,070	<b>13,106,051</b>
Net non-interest income	3,520,781	1,766,935	742,020	397,198	<b>6,426,934</b>	5,597,194	345,730	297,434	186,576	<b>6,426,934</b>
Operating income	<u>9,374,723</u>	<u>6,861,752</u>	<u>1,308,587</u>	<u>1,987,923</u>	<b><u>19,532,985</u></b>	<u>17,100,601</u>	<u>957,536</u>	<u>1,014,202</u>	<u>460,646</u>	<b><u>19,532,985</u></b>
General administration and other operating expenses	2,014,741	2,642,111	545,009	673,488	<b>5,875,349</b>	5,022,857	344,768	328,017	179,707	<b>5,875,349</b>
Net impairment charge	<u>299,678</u>	<u>1,770,465</u>	<u>521,195</u>	<u>(207,004)</u>	<b><u>2,384,334</u></b>	<u>2,304,790</u>	<u>85,185</u>	<u>(4,481)</u>	<u>(1,160)</u>	<b><u>2,384,334</u></b>
Profit before taxation	<u>7,060,304</u>	<u>2,449,176</u>	<u>242,383</u>	<u>1,521,439</u>	<b><u>11,273,302</u></b>	<u>9,772,954</u>	<u>527,583</u>	<u>690,666</u>	<u>282,099</u>	<b><u>11,273,302</u></b>
Overseas taxation	<u>184,647</u>	<u>114,408</u>	<u>21,973</u>	<u>2,510</u>	<b><u>323,538</u></b>	<u>5,263</u>	<u>116,818</u>	<u>170,452</u>	<u>31,005</u>	<b><u>323,538</u></b>
Net profit for the period	<u>6,875,657</u>	<u>2,334,768</u>	<u>220,410</u>	<u>1,518,929</u>	<b><u>10,949,764</u></b>	<u>9,767,691</u>	<u>410,765</u>	<u>520,214</u>	<u>251,094</u>	<b><u>10,949,764</u></b>
<i>As at 31 December 2017</i>										
Segment total assets	<u>450,430,907</u>	<u>97,980,652</u>	<u>21,782,636</u>	<u>126,431,598</u>	<b><u>696,625,793</u></b>	<u>544,299,763</u>	<u>21,240,671</u>	<u>129,441,066</u>	<u>23,406,626</u>	<b><u>718,388,126</u></b>
Inter segment balances					<b>(27,657,498)</b>					<b>(49,419,831)</b>
Total assets					<b><u>668,968,295</u></b>					<b><u>668,968,295</u></b>
Segment total liabilities	<u>438,220,833</u>	<u>95,001,870</u>	<u>11,430,776</u>	<u>49,643,868</u>	<b><u>594,297,347</u></b>	<u>456,642,219</u>	<u>13,808,673</u>	<u>126,033,661</u>	<u>19,694,270</u>	<b><u>616,178,823</u></b>
Inter segment balances					<b>(27,538,475)</b>					<b>(49,419,951)</b>
Total liabilities					<b><u>566,758,872</u></b>					<b><u>566,758,872</u></b>

Segmental information (continued)

	Business Segment					Geographic Segment				
	Corporate and Investment Banking AED'000	Personal Banking AED'000	Subsidiaries AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Middle East And Africa AED'000	Europe and Americas AED'000	Asia - Pacific AED'000	Total AED'000
<b>For the year ended 31 December 2016</b>										
Net Interest income	6,040,346	5,708,783	514,558	1,286,084	<b>13,549,771</b>	11,950,828	803,449	551,345	244,149	<b>13,549,771</b>
Net non-interest income	3,776,509	1,751,524	1,147,654	76,926	<b>6,752,613</b>	5,782,985	316,146	436,768	216,714	<b>6,752,613</b>
Operating income	<u>9,816,855</u>	<u>7,460,307</u>	<u>1,662,212</u>	<u>1,363,010</u>	<b><u>20,302,384</u></b>	<u>17,733,813</u>	<u>1,119,595</u>	<u>988,113</u>	<u>460,863</u>	<b><u>20,302,384</u></b>
General administration and other operating expenses	2,265,236	3,024,107	452,002	180,954	<b>5,922,299</b>	5,043,529	393,729	300,395	184,646	<b>5,922,299</b>
Net impairment charge	<u>134,877</u>	<u>1,926,936</u>	<u>452,546</u>	<u>149,332</u>	<b><u>2,663,691</u></b>	<u>2,911,036</u>	<u>15,165</u>	<u>63,596</u>	<u>(326,106)</u>	<b><u>2,663,691</u></b>
Profit before taxation	<u>7,416,742</u>	<u>2,509,264</u>	<u>757,664</u>	<u>1,032,724</u>	<b><u>11,716,394</u></b>	<u>9,779,248</u>	<u>710,701</u>	<u>624,122</u>	<u>602,323</u>	<b><u>11,716,394</u></b>
Overseas taxation	<u>215,771</u>	<u>108,057</u>	<u>26,805</u>	<u>(81)</u>	<b><u>350,552</u></b>	<u>(1,647)</u>	<u>167,218</u>	<u>173,920</u>	<u>11,061</u>	<b><u>350,552</u></b>
Net profit for the period	<u>7,200,971</u>	<u>2,401,207</u>	<u>730,859</u>	<u>1,032,805</u>	<b><u>11,365,842</u></b>	<u>9,780,895</u>	<u>543,483</u>	<u>450,202</u>	<u>591,262</u>	<b><u>11,365,842</u></b>
<b>As at 31 December 2016</b>										
Segment total assets	<u>422,013,912</u>	<u>101,349,880</u>	<u>24,919,474</u>	<u>158,874,736</u>	<b><u>707,158,002</u></b>	<u>530,916,692</u>	<u>22,251,895</u>	<u>111,357,266</u>	<u>26,808,386</u>	<b><u>691,334,239</u></b>
Inter segment balances					<u>(58,037,379)</u>					<b><u>(42,213,616)</u></b>
Total assets					<u>649,120,623</u>					<b><u>649,120,623</u></b>
Segment total liabilities	<u>411,167,120</u>	<u>98,520,038</u>	<u>14,310,867</u>	<u>85,726,000</u>	<b><u>609,724,025</u></b>	<u>446,830,495</u>	<u>16,160,476</u>	<u>109,214,755</u>	<u>21,694,536</u>	<b><u>593,900,262</u></b>
Inter segment balances					<u>(58,037,379)</u>					<b><u>(42,213,616)</u></b>
Total liabilities					<u>551,686,646</u>					<b><u>551,686,646</u></b>

## Notes to the condensed consolidated Pro-forma financial statements

### 1 Interest income

	2017 AED'000	2016 AED'000
<i>Interest from:</i>		
Central banks	393,633	234,600
Banks and financial institutions	534,255	476,351
Reverse repurchase agreements	297,671	165,767
Investments at fair value through profit or loss	425,735	405,099
Non-trading investments	2,129,967	2,487,719
Loans and advances	15,065,657	14,917,914
	<u>18,846,918</u>	<u>18,687,450</u>

### 2 Interest expense

	2017 AED'000	2016 AED'000
<i>Interest to:</i>		
Banks and financial institutions	698,074	982,528
Repurchase agreements	409,014	316,236
Commercial paper	178,992	63,617
Customer accounts and other deposits	3,029,734	2,617,693
Term borrowings	1,404,651	1,133,762
Subordinated notes	20,402	23,843
	<u>5,740,867</u>	<u>5,137,679</u>

### 3 Net fees and commission income

	2017 AED'000	2016 AED'000
<b>Fee and commission income</b>		
Trade finance	998,445	1,113,582
Collection services	43,241	54,640
Brokerage income	49,245	53,718
Asset management and investment services	116,331	127,085
Investments, derivatives and risk participation	8,115	17,725
Retail and corporate lending	1,171,248	1,580,422
Cards and e-services	1,896,355	1,866,671
Accounts related services	59,397	51,038
Commission on transfers	116,571	117,649
Others	306,313	305,384
Total fee and commission income	<u>4,765,261</u>	<u>5,287,914</u>
<b>Fee and commission expense</b>		
Brokerage commission	35,553	28,204
Handling charges	30,618	29,721
Credit card charges	1,025,697	980,369
Retail and corporate lending	262,840	338,423
Others	48,689	25,261
Total fee and commission expense	<u>1,403,397</u>	<u>1,401,978</u>
<b>Net fee and commission income</b>	<u>3,361,864</u>	<u>3,885,936</u>

**4 Net foreign exchange gain**

	2017 AED'000	2016 AED'000
Trading and retranslation gain on foreign exchange and related derivatives	626,664	657,146
Dealings with customers	376,620	396,222
	<u>1,003,284</u>	<u>1,053,368</u>

**5 Net gain on investments and derivatives**

	2017 AED'000	2016 AED'000
Net realised and unrealised gain on investments at fair value through profit or loss and derivatives	630,797	133,678
Net gain from sale of non-trading Investments	913,064	816,326
Dividend income	38,581	19,788
	<u>1,582,442</u>	<u>969,792</u>

**6 Other Operating Income**

	2017 AED'000	2016 AED'000
Investment property income	215,631	550,682
Leasing related income	103,590	184,483
Other income	160,123	108,352
	<u>479,344</u>	<u>843,517</u>

**7 General, administration and other operating expenses**

	2017 AED'000	2016 AED'000
Staff costs	3,422,654	3,944,851
Other general and administration expenses	1,877,303	1,576,394
Depreciation	374,101	341,085
Intangible amortisation	159,156	21,118
Sponsorships and donations	42,135	38,851
	<u>5,875,349</u>	<u>5,922,299</u>

**8 Net impairment charge**

	2017 AED'000	2016 AED'000
Collective provision for loans and advances	(360,879)	1,148,986
Specific provision for loans and advances	3,614,458	2,404,961
Recoveries	(903,320)	(956,536)
Write-off of impaired financial assets	33,118	58,463
Provisions for investment and others	957	7,817
	<u>2,384,334</u>	<u>2,663,691</u>



# Audited Consolidated Financial Statements

For the financial year ended 31 December 2017



بنك أبوظبي الأول

**FAB**

First Abu Dhabi Bank

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## Independent Auditors' Report

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

### **Report on the audit of the consolidated financial statements**

#### Opinion

We have audited the consolidated financial statements of First Abu Dhabi Bank P.J.S.C. (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



*Key Audit Matters (continued)*

### **Impairment of Loans and Advances**

*Refer to note 11 to the consolidated financial statements*

Impairment is a subjective area due to the level of judgment applied by management in determining impairment allowance. Due to the significance of loans and advances and the related estimation uncertainty, this is considered a key audit matter.

Judgment 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 the viability of future cash flows of corporate customers.

#### **Our response**

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

We used our local knowledge to assess 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 sample 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 facilities in credit grades substandard, doubtful, loss and watchlist categories. We assessed the reasonableness of the forecast of recoverable cash flows, realisation of collateral and other possible sources of payment/settlement. We compared key assumptions to progress against business plans and our own understanding of the relevant industries and business environment. We also compared them, where possible, to externally derived evidence such as business performance and real estate valuations for assessing the appropriateness of the collateral values held by the Bank.



*Key Audit Matters (continued)*

### **Impairment of Loans and Advances (continued)**

#### **Our response (continued)**

- 2) for retail customers, the impairment process is based on models accounting for the number of days past due on each customer. Our procedures included understanding management's basis for determining whether a financing receivable is impaired and assessing the reasonableness using our understanding of the Group's Loans and Advances and our broader industry knowledge.
- 3) for Portfolio (collective) impairment provision, our procedures included:
  - testing of key controls over the impact of underlying data into the models;
  - evaluating the methodology and the key assumptions used in determining the estimate and wherever possible, we compared the key assumptions used to externally available industry, financial and economic data; and
  - for judgemental overlays, we challenged management to provide 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) we assessed the consolidated financial statement disclosures to ensure that they appropriately reflect the Group's exposure to credit risk.

### **Acquisition Accounting**

*Refer to note 42 to the consolidated financial statements*

On 7 December 2016, Shareholders of National Bank of Abu Dhabi PJSC ("NBAD") and First Gulf Bank PJSC ("FGB") approved the merger of the two banks (the "transaction") with an effective date of this merger being 1 April 2017. This transaction has been accounted for in accordance with IFRS 3 *Business Combinations* which requires it to be accounted for using the acquisition method, resulting in this transaction being accounted for as a reverse acquisition whereby FGB is determined to be the accounting acquirer of NBAD.

Purchase Price Allocation ("PPA"), required to be carried out as part of business combination accounting, is complex and inherently judgmental. In particular, due the specialized nature of most intangible assets, measuring the fair value using the market approach may not always be possible. Hence, a number of management assumptions were made using the appropriate methodology, assumptions and valuation techniques. Due to the uncertainty in determining the fair value of assets acquired and liabilities assumed, data used in order to calculate PPA and all its related disclosures, this is considered as a key audit matter.



*Key Audit Matters (continued)*

### **Acquisition Accounting (continued)**

#### **Our response**

We involved our valuation specialists in the audit of the PPA. We challenged the appropriateness of the methodology, assumptions and valuation techniques used to value assets and liabilities, the adequate identification of Cash Generating Units ("CGU") and the appropriateness of the useful lives assigned to the identified intangible assets, having regard to the expected use of these assets.

Our audit procedures included:

- validation of fair value adjustment recognized by management confirming that they are in accordance with the requirements of IFRS 3;
- challenging management assumptions used in determining CGUs;
- assessing management's assumptions in relation to the accounting for the transaction as a reverse acquisition in accordance with the requirements of IFRS 3;
- testing the process and controls to ensure the existence and accuracy of the assets and liabilities on the merger date; and
- assessing the appropriateness of related disclosures.

### **IT systems and controls over financial reporting**

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

#### **Our response**

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

Our audit procedures included:

- assessing and testing the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting;



*Key Audit Matters (continued)*

**IT systems and controls over financial reporting (continued)**

**Our response (continued)**

- reviewing management's plan of the IT systems integration as a result of the merger;
- reviewing the governance framework over the Group's IT organization and testing the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required;
- assessing the IT security environment;
- identifying and assessing migration procedures and manual processes in preparing a single Bank view from two separate platforms; and
- testing the consolidation process and reconciling the audited component information to the consolidation workings of the Group to verify completeness of the information in the financial reporting systems used to prepare the consolidated financial statements.

**Other Matter**

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 were audited by the predecessor auditor, whose report dated 31 January 2017 expresses an unmodified audit opinion.

*Other information*

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

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

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

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



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

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

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

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

*Auditors' responsibilities for the audit of the consolidated financial statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.





*Auditors' 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.



**Report on other legal and regulatory requirements**

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

- i) we have obtained all the information and we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Chairman's letter, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- v) as disclosed in notes 8 and 12 to the consolidated financial statements, the Group has purchased or invested in shares during the financial year ended 31 December 2017;
- vi) note 41 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No.(2) of 2015 or in respect of the Bank, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2017; and
- viii) 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  
Richard Ackland  
Registration number: 1015  
Abu Dhabi, United Arab Emirates

Date 29 JAN 2018

**Consolidated statement of financial position**  
As at 31 December

Assets	Note	2017 AED'000	2016 AED'000
Cash and balances with central banks	7	138,111,054	24,776,717
Investments at fair value through profit or loss	8	19,320,764	899,524
Due from banks and financial institutions	9	13,829,490	12,932,570
Reverse repurchase agreements	10	21,346,974	5,449,019
Derivative financial instruments	38	11,399,432	1,953,003
Loans and advances	11	330,465,888	134,650,001
Non-trading investments	12	88,457,710	28,413,499
Investment properties	13	6,927,692	6,422,502
Property and equipment	14	3,535,501	1,528,255
Intangibles	15	19,901,374	170,398
Other assets	16	15,672,416	6,784,453
<b>Total assets</b>		<b>668,968,295</b>	<b>223,979,941</b>
<b>Liabilities</b>			
Due to banks and financial institutions	17	30,576,336	11,585,628
Repurchase agreements	18	37,674,016	13,109,155
Commercial paper	19	24,124,097	10,016,916
Derivative financial instruments	38	14,941,331	2,835,008
Customer accounts and other deposits	20	395,843,664	125,782,798
Term borrowings	21	42,145,718	18,294,545
Subordinated notes	22	420,381	-
Other liabilities	23	21,033,339	4,698,919
<b>Total liabilities</b>		<b>566,758,882</b>	<b>186,322,969</b>
<b>Equity</b>			
Share capital	24	10,897,545	4,500,000
Share premium		53,026,644	-
Treasury shares		(42,433)	-
Statutory and special reserves		7,081,074	11,030,110
Other reserves	24	962,736	725,064
Tier 1 capital notes	25	10,754,750	4,000,000
Share option scheme	26	256,265	-
Convertible notes - equity component		108,265	-
Retained earnings		18,677,552	16,969,016
<b>Total equity attributable to shareholders of the Bank</b>		<b>101,722,398</b>	<b>37,224,190</b>
Non-controlling interest		487,015	432,782
<b>Total Equity</b>		<b>102,209,413</b>	<b>37,656,972</b>
<b>Total liabilities and equity</b>		<b>668,968,295</b>	<b>223,979,941</b>

These consolidated financial statements were approved by the Board of Directors and authorized for issue on 29 January 2018 and signed on its behalf :

Chairman

Group Chief Executive Officer

Group Chief Financial Officer

The notes 1 to 46 are an integral part of these consolidated financial statements.  
The independent auditor's report on audit of consolidated financial statements is set out on pages 2 to 9.

## Consolidated statement of profit or loss

For the year ended 31 December

	Note	2017 AED'000	2016 AED'000
Interest income	27	16,331,787	8,513,560
Interest expense	28	(4,935,594)	(2,159,931)
<b>Net interest income</b>		<b>11,396,193</b>	6,353,629
Fee and commission income		4,026,061	2,111,097
Fee and commission expense		(1,128,206)	(308,102)
<b>Net fee and commission income</b>	29	<b>2,897,855</b>	1,802,995
Net foreign exchange gain	30	928,188	222,656
Net gain on investments and derivatives	31	686,131	402,735
Other operating income	32	472,090	778,828
		<b>2,086,409</b>	1,404,219
<b>Operating income</b>		<b>16,380,457</b>	9,560,843
General, administration and other operating expenses	33	(4,901,496)	(1,976,183)
<b>Profit before net impairment charge and taxation</b>		<b>11,478,961</b>	7,584,660
Net impairment loss	34	(2,086,717)	(1,473,014)
<b>Profit before tax</b>		<b>9,392,244</b>	6,111,646
Overseas income tax expense	35	(224,989)	(41,846)
<b>Profit for the year</b>		<b>9,167,255</b>	6,069,800
Profit attributable to:			
Shareholders of the Bank		9,132,648	6,026,226
Non-controlling interests		34,607	43,574
		<b>9,167,255</b>	6,069,800
<b>Basic earnings per share (AED)</b>	40	<b>0.91</b>	1.04
<b>Diluted earnings per share (AED)</b>	40	<b>0.91</b>	1.04

The notes 1 to 46 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 9.

## Consolidated statement of comprehensive income

For the year ended 31 December

	2017 AED'000	2016 AED'000
<b>Profit for the year</b>	<b>9,167,255</b>	6,069,800
<b>Other comprehensive income</b>		
<b>Items that are or may subsequently be reclassified to consolidated statement of profit or loss</b>		
Exchange difference on translation of foreign operations	44,878	(29,795)
Net change in fair value reserve during the year	212,420	2,152
<b>Items that will not be subsequently be reclassified to consolidated statement of profit or loss</b>		
Re-measurement of defined benefit obligations	(7,102)	-
Board of Director's remuneration	(49,000)	(51,000)
Other comprehensive income for the year	<u>201,196</u>	<u>(78,643)</u>
<b>Total comprehensive income for the year</b>	<b><u>9,368,451</u></b>	<b><u>5,991,157</u></b>
Comprehensive income attributable to:		
Shareholders of the Bank	9,314,218	5,958,814
Non-controlling interest	54,233	32,343
<b>Total comprehensive income for the year</b>	<b><u>9,368,451</u></b>	<b><u>5,991,157</u></b>

The notes 1 to 46 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 9.

## Consolidated statement of cash flows

For the year ended 31 December

	Note	2017 AED'000	2016 AED'000
<b>Cash flows from operating activities</b>			
Profit before taxation		9,392,244	6,111,646
Adjustments for:			
Depreciation and amortisation	14,15	470,575	140,979
Gain on revaluation of investment properties	13	(179,916)	5,651
Gain on sale of investment property		(35,715)	(550,682)
Gain on sale of fixed assets		(2,214)	-
Impairment of other financial charges		843	20,852
Net impairment charges	34	2,383,651	1,452,162
Accreted interest		84,952	4,695
Foreign currency translation adjustment		425,056	(86,110)
Share option scheme		20,466	-
		<b>12,559,943</b>	<b>7,099,193</b>
Changes in:			
Investments at fair value through profit or loss		(2,343,581)	(326,559)
Due from central banks, banks and financial institutions		(2,286,988)	(5,390,892)
Reverse repurchase agreements		1,978,416	(3,121,470)
Loans and advances		9,340,457	(4,884,772)
Other assets		29,166	955,767
Due to banks and financial institutions		(21,993,151)	1,776,169
Repurchase agreements		17,964,674	4,795,590
Customer accounts and other deposits		(2,933,193)	2,612,404
Derivative financial instruments		645,189	(15,571)
Other liabilities		1,586,364	(1,342,530)
		<b>14,547,288</b>	<b>2,157,329</b>
Overseas income tax paid, net of recoveries		(286,493)	(19,924)
Directors' remuneration paid		(49,000)	(45,000)
		<b>14,211,795</b>	<b>2,092,405</b>
<b>Net cash from operating activities</b>			
<b>Cash flows from investing activities</b>			
Net purchase of non-trading investments		(12,721,340)	(6,250,316)
Purchase of investment property		(553,203)	(798,856)
Sale proceeds from disposal of investment property		263,644	3,253,726
Cash and cash equivalents of subsidiary acquired		121,258,636	-
Purchase of property and equipment, net of disposals		(430,038)	(252,535)
		<b>107,817,699</b>	<b>(4,047,981)</b>
<b>Net cash from / (used) investing activities</b>			
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares under share option scheme	26	34,025	-
Dividend paid	24	(4,489,524)	(4,423,230)
Net movement of commercial paper		2,130,547	7,182,108
Issue of term borrowings	21	3,135,955	2,524,805
Repayment of term borrowings		(11,433,020)	(1,524,834)
Repayment of Sukuk		-	(2,387,450)
Payment on Tier 1 capital notes	25	(381,089)	(138,256)
		<b>(11,003,106)</b>	<b>1,233,143</b>
<b>Net cash (used) / from in financing activities</b>			
<b>Net increase / (decrease) in cash and cash equivalents</b>			
<b>Cash and cash equivalents at 1 January</b>			
		<b>23,579,527</b>	<b>24,301,960</b>
<b>Cash and cash equivalents at 31 December</b>			
	36	<b>134,605,917</b>	<b>23,579,527</b>

The notes 1 to 46 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 9.

## Consolidated statement of changes in equity

For the year ended 31 December

	Share capital (AED '000)	Share Premium (AED '000)	Treasury shares (AED '000)	Statutory and special reserves (AED '000)	General reserve (AED '000)	Tier 1 capital notes (AED '000)	Share option scheme (AED '000)	Fair value reserve (AED '000)	Foreign currency translation reserve (AED '000)	Revaluation reserve (AED '000)	Convertible notes - equity component (AED '000)	Retained earnings (AED '000)	Equity attributable to shareholders of the Group (AED '000)	Non-Controlling interest (AED '000)	Total (AED '000)
<b>Balance at 1 January 2016</b>	4,500,000	-	-	11,030,110	120,000	4,000,000	-	410,638	(69,763)	280,601	-	15,632,046	35,903,632	400,439	36,304,071
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	6,026,226	6,026,226	43,574	6,069,800
Other comprehensive income for the year	-	-	-	-	-	-	-	2,152	(18,564)	-	-	(51,000)	(67,412)	(11,231)	(78,643)
<u>Transactions with owners of the Group</u>															
Dividend for the year 2015	-	-	-	-	-	-	-	-	-	-	-	(4,500,000)	(4,500,000)	-	(4,500,000)
Payment on Tier 1 capital notes (note 25)	-	-	-	-	-	-	-	-	-	-	-	(138,256)	(138,256)	-	(138,256)
<b>Balance at 31 December 2016</b>	<u>4,500,000</u>	<u>-</u>	<u>-</u>	<u>11,030,110</u>	<u>120,000</u>	<u>4,000,000</u>	<u>-</u>	<u>412,790</u>	<u>(88,327)</u>	<u>280,601</u>	<u>-</u>	<u>16,969,016</u>	<u>37,224,190</u>	<u>432,782</u>	<u>37,656,972</u>
<b>Balance at 1 January 2017</b>	<b>4,500,000</b>	<b>-</b>	<b>-</b>	<b>11,030,110</b>	<b>120,000</b>	<b>4,000,000</b>	<b>-</b>	<b>412,790</b>	<b>(88,327)</b>	<b>280,601</b>	<b>-</b>	<b>16,969,016</b>	<b>37,224,190</b>	<b>432,782</b>	<b>37,656,972</b>
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	9,132,648	9,132,648	34,607	9,167,255
Other comprehensive income for the year	-	-	-	-	-	-	-	212,420	25,252	-	-	(56,102)	181,570	19,626	201,196
Business combination transaction (note 42)	6,397,545	52,997,018	(46,832)	(5,775,566)	-	6,754,750	235,798	-	-	-	108,265	-	60,670,978	-	60,670,978
Accounting policy alignment (note 43)	-	-	-	-	-	-	-	-	-	-	-	(659,283)	(659,283)	-	(659,283)
Transfer during the year	-	-	-	1,826,530	-	-	-	-	-	-	-	(1,826,530)	-	-	-
<u>Transactions with owners of the Group</u>															
Zakat	-	-	-	-	-	-	-	-	-	-	-	(1,108)	(1,108)	-	(1,108)
Share options exercised (note 26)	-	29,626	4,399	-	-	-	-	-	-	-	-	-	34,025	-	34,025
Dividend for the year 2016	-	-	-	-	-	-	-	-	-	-	-	(4,500,000)	(4,500,000)	-	(4,500,000)
Options granted to staff	-	-	-	-	-	-	20,467	-	-	-	-	-	20,467	-	20,467
Payment on Tier 1 capital notes (note 25)	-	-	-	-	-	-	-	-	-	-	-	(381,089)	(381,089)	-	(381,089)
<b>Balance at 31 December 2017</b>	<u>10,897,545</u>	<u>53,026,644</u>	<u>(42,433)</u>	<u>7,081,074</u>	<u>120,000</u>	<u>10,754,750</u>	<u>256,265</u>	<u>625,210</u>	<u>(63,075)</u>	<u>280,601</u>	<u>108,265</u>	<u>18,677,552</u>	<u>101,722,398</u>	<u>487,015</u>	<u>102,209,413</u>

The notes 1 to 46 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 9.

## Notes to the consolidated financial statements

### 1 Legal status and principal activities

On 7 December 2016, Shareholders of National Bank of Abu Dhabi PJSC ("NBAD") and First Gulf Bank PJSC ("FGB") approved the merger of the two banks pursuant to Article 283(1) of UAE Federal Law No. 2 of 2015 Concerning Commercial Companies (the Law). The merger was effected through the issuance of 1.254 new NBAD shares for every 1 share in FGB on close of business 30 March 2017, subsequent to which FGB shares were delisted from Abu Dhabi Securities Exchange. On 25 April 2017, NBAD shareholders approved the proposal to change the name of the combined bank to 'First Abu Dhabi Bank' (the "Bank") and have its registered office in FAB Building, Khalifa Business Park 1 Al Qurum P. O Box 6316 Abu Dhabi, United Arab Emirates. This transaction is accounted for as a reverse acquisition as per IFRS 3 - *Business Combinations*, (refer to Note 42 for details) and therefore the comparatives in the financial statements are of FGB.

These consolidated financial statements as at and for the year ended 31 December 2017 comprises the Bank and its subsidiaries (together referred to as the "Group"). The Group is primarily engaged in corporate, retail, private and investment banking activities, management services, Islamic banking activities, real estate activities; and carries out its operations through its local and overseas branches, subsidiaries and representative offices located in the United Arab Emirates, Bahrain, Brazil, Cayman Islands, China, Egypt, France, Hong Kong, India, Jordan, Kuwait, Lebanon, Libya, Malaysia, Oman, Qatar, Singapore, South Korea, Sudan, Switzerland, the United Kingdom and the United States of America..

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

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

The consolidated financial statements of the Group as at and for the year ended 31 December 2017 are available upon request from the Group's registered office or at <http://www.bankfab.com>

### 2 Basis of Preparation

#### (a) Statement of Compliance

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

On 1 April 2015, a new UAE Federal Law No 2 for Commercial Companies ("UAE Companies Law of 2015") was issued with effective date 1 July 2015. The Group is compliant with applicable sections of the UAE Companies Law of 2015 as at the date thereof.

These consolidated financial statements were authorised for issue by the Board of Directors on 29 January 2018.

#### (b) Business combinations

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

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

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



## Notes to the consolidated financial statements *(continued)*

### 2 Basis of Preparation *(continued)*

#### (b) Business combinations *(continued)*

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate standards. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

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

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

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

#### (c) Basis of measurement

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

- investments at fair value through profit or loss are measured at fair value;
- derivative financial instruments are measured at fair value;
- non-trading investments classified as available-for-sale are measured at fair value;
- recognised assets and liabilities designated as hedged items in qualifying hedge relationships are adjusted for changes in fair value attributable to the risk being hedged; and
- non-financial assets acquired in settlement of loans and advances are measured at the lower of their fair value less costs to sell and the carrying amount of the loan and advances.

#### (d) Functional and presentation currency

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

#### (e) Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these consolidated financial statements are described in note 5.

## Notes to the consolidated financial statements (continued)

### 3 Significant accounting policies

The accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2016 except for the effect of accounting policy change as mentioned in note 43 and the adoption of the following amendments to standards and new standards as of 1 January 2017.

#### ***New standards and interpretations adopted***

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

#### **(a) Basis of consolidation**

##### *(i) Subsidiaries*

IFRS 10 governs the basis for consolidation where it establishes a single control model that applies to all entities including special purpose entities or structured entities. The definition of control is such that an investor controls an investee when it is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

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

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

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

Legal Name	Country of incorporation	Principal activities	Holding % 2017
NBAD Americas N.V. (formerly Abu Dhabi International Bank N.V.)	Curacao	Banking	100%
NBAD Securities LLC	United Arab Emirates	Brokerage	100%
Abu Dhabi National Leasing LLC	United Arab Emirates	Leasing	100%
Abu Dhabi National Properties PJSC	United Arab Emirates	Property Management	100%
NBAD Private Bank (Suisse) SA	Switzerland	Banking	100%
Abu Dhabi National Islamic Finance Pvt. JSC	United Arab Emirates	Islamic Finance	100%
Ample China Holdings Limited	Hong Kong	Leasing	100%
Abu Dhabi Brokerage Egypt	Egypt	Brokerage	96%
National Bank of Abu Dhabi Malaysia Berhad	Malaysia	Banking	100%
NBAD Employee Share Options Limited	United Arab Emirates	Shares and Securities	100%
SAS 10 Magellan	France	Leasing	100%
NBAD Global Multi-Strategy Fund	Cayman Island	Fund Management	100%

## Notes to the consolidated financial statements (continued)

### 3 Significant accounting policies (continued)

#### (a) Basis of consolidation (continued)

##### (i) Subsidiaries (continued)

Legal Name	Country of incorporation	Principal activities	Holding % 2017
National Bank of Abu Dhabi Representações Ltda	Brazil	Representative office	100%
NBAD Financial Markets (Cayman) Limited	Cayman Islands	Financial Institution	100%
Nawat Management Services	United Arab Emirates	Services	100%
Mismak Properties Co. LLC (Mismak)	United Arab Emirates	Real estate investments	100%
First Merchant International LLC	United Arab Emirates	Real estate investments	100%
FGB Sukuk Company Limited	Cayman Islands	Special purpose vehicle	100%
FGB Sukuk Company II Limited	Cayman Islands	Special purpose vehicle	100%
First Gulf Libyan Bank *	Libya	Banking services	50%
FGB Global Markets Cayman Limited	Cayman Islands	Financial Institution	100%
First Gulf Properties LLC	United Arab Emirates	Management and brokerage of real estate properties	100%
Aseel Finance PJSC	United Arab Emirates	Islamic finance	100%
Dubai First PJSC	United Arab Emirates	Credit card finance	100%
First Gulf Information Technology LLC	United Arab Emirates	IT Services	100%

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

##### (ii) Structured entities

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

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

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

Type of Structured Entity	Nature and purpose	Interest held by the Group
Investment Funds	Generate fees from managing assets on behalf of third-party investors	Investments in units issued by the fund amounting to AED 20,069 thousand (2016: nil)

## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### *(iii) Joint Arrangements and Investments in Associates*

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

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

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

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

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

#### *(iv) Loss of control*

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

#### *(v) Transactions eliminated on consolidation*

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

### **(b) Financial assets and liabilities**

#### *(i) Recognition*

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

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

## Notes to the consolidated financial statements (continued)

### 3 Significant accounting policies (continued)

#### (b) Financial assets and liabilities (continued)

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

(a) *Fair value through profit or loss*

(i) *Designation at fair value through profit or loss*

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

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

(ii) *Held for trading*

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

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

(b) *Loans and receivables*

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

(c) *Held-to-maturity*

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

(d) *Available-for-sale*

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

(e) *Financial liabilities*

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

(iii) *De-recognition*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all 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 or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such transactions, the transferred assets are not derecognised from the consolidated statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include repurchase transactions.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

## Notes to the consolidated financial statements (continued)

### 3 Significant accounting policies (continued)

#### (b) Financial assets and liabilities (continued)

##### (iv) Offsetting

As per IAS 32, financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity

##### (v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the "effective interest rate / method" of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

##### (vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

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

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

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

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

## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### (b) Financial assets and liabilities *(continued)*

##### (vi) Fair value measurement *(continued)*

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

##### (vii) Identification and measurement of impairment

An assessment is made at each reporting date and periodically during the year to determine whether there is any objective evidence that financial assets not carried at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or an advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

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

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the original effective interest rate. Impairment losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

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

Impairment losses on unquoted equity instruments that are carried at cost because their fair value cannot be reliably measured, are measured as the difference between the carrying amount of the financial assets and the present

## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### (b) Financial assets and liabilities *(continued)*

##### (vii) *Identification and measurement of impairment (continued)*

values of estimated future cash flows discounted at the current market rate of return for similar financial assets. Such impairment losses shall not be reversed.

#### (c) Cash and cash equivalents

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

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

#### (d) Investments at fair value through profit or loss

These are financial assets classified as held for trading or designated as such upon initial recognition.

Held for trading financial assets includes debt securities, treasury bills, equity securities, short positions in securities and funds. They have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. In addition, derivatives that are not effective accounting hedging instruments are carried at fair value through profit or loss.

Financial assets designated at fair value through profit or loss applies to groups of financial assets where performances are evaluated and managed on a fair value basis in accordance with a documented risk management or investment strategy.

These financial assets are initially recognised and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of profit or loss. All related realised and unrealised gains or losses are included in net gain on investments.

#### (e) Due from banks and financial institutions

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

#### (f) Reverse repurchase agreements

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

#### (g) Loans and advances

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

Loans and advances include loans and advances originated by the Group which is not classified as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are sold or written off. These are initially measured at fair value (being the transaction price at inception) plus incremental direct transaction costs and subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges for the risk being hedged, net of interest suspended and provisions for impairment.



## Notes to the consolidated financial statements (continued)

### 3 Significant accounting policies (continued)

#### (g) Loans and advances (continued)

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

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

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

#### (h) Islamic financing and investing contracts

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

##### (i) Definitions

###### *Ijara*

Ijara consists of Ijara muntahia bitamleek.

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

###### *Murabaha*

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

###### *Mudaraba*

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

###### *Wakala*

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

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

## Notes to the consolidated financial statements (continued)

### 3 Significant accounting policies (continued)

#### (h) Islamic financing and investing contracts (continued)

##### (ii) Revenue recognition

###### *Ijara*

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

###### *Murabaha*

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

###### *Mudaraba*

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

###### *Wakala*

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

#### (i) Non-trading investments

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

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

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

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

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

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

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

## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### (i) Non-trading investments *(continued)*

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

#### (j) Investment properties

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

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

#### (k) Property and equipment

##### (i) Recognition and measurement

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

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

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

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

##### (ii) Depreciation

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

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

Buildings and villas	20 to 50 years
Office furniture and equipment	1 to 7 years
Alterations to premises	5-10 years
Safes	10 to 20 years
Computer systems and equipment	3 to 7 years
Vehicles	3 years

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

## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### (k) Property and equipment *(continued)*

##### *(iii) Capital work in progress*

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

##### *(iv) Impairment of non-financial assets*

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

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

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

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

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

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

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

#### (l) Intangible assets

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

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

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

## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### (l) Intangible assets *(continued)*

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

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

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

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

#### (m) Collateral pending sale

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

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

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

#### (o) Repurchase agreements

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

#### (p) Term borrowings and subordinated notes

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

## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### (p) Term borrowings and subordinated notes *(continued)*

Term borrowings and subordinated notes without conversion option and that are not designated at fair value through profit or loss are financial liabilities which are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method and adjusted to the extent of fair value changes for the risks being hedged.

#### (q) Treasury shares

Own equity instruments which are acquired (treasury shares) are deducted from the equity and accounted for at weighted average cost. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. If treasury shares are distributed as part of a bonus share issue, the cost of the shares is charged against retained earnings. Voting rights relating to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

#### (r) Fiduciary assets

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

#### (s) Share option scheme

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

#### (t) Interest income and expense

Interest income and expense are recognised in the consolidated statement of profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the consolidated statement of profit or loss include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis;
- interest on available-for-sale investment securities on an effective interest rate basis;
- interest on held for trading securities and derivative financial instruments on an effective interest rate basis; the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

#### (u) Income from Islamic financing activities

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

## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### (u) Income from Islamic financing activities *(continued)*

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

#### (v) Depositors' share of profit

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

#### (w) Fee and commission income

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

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

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

#### (x) Zakat

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

#### (y) Net gain/loss on investments and derivatives

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

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

Non-trading investment includes available for sale and held to maturity instruments.

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

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

## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### (z) Foreign currency

##### (i) Foreign currency transactions

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

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

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

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

##### (ii) Foreign operations

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

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to the foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

If the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and recognized in OCI, and accumulated in the translation reserve in the equity.

#### (aa) Overseas income tax expense

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable



## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### (aa) Overseas income tax expense *(continued)*

future. Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

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

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

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

#### (ab) Derivative financial instruments and hedging

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

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

##### *Embedded derivatives*

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

##### *Hedge accounting*

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

The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, as to whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecasted transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

## Notes to the consolidated financial statements (continued)

### 3 Significant accounting policies (continued)

#### (ab) Derivative financial instruments and hedging (continued)

##### *Fair value hedge*

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

##### *Cash flow hedge*

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flow attributable to a particular risk associated with a recognized assets or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivatives is recognized in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the profit or loss. The amount recognized in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss and in the same line in the statement of profit or loss and OCI. If the hedging derivative expires or sold, terminated or exercised or the hedge, no longer meets the criteria for cash flow hedge accounting the hedge accounting is discontinued prospectively. However if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated

##### *Net investments hedges*

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

##### *Other derivatives*

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

#### (ac) Provisions

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

#### (ad) Employees' end of service benefit

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

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

## Notes to the consolidated financial statements (continued)

### 3 Significant accounting policies (continued)

#### (ad) Employees' end of service benefit (continued)

##### *Defined contribution plan*

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

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

##### *Defined benefit plan*

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

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

#### (ae) Directors' remuneration

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

#### (af) Fiduciary activities

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

#### (ag) Earnings per share

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

#### (ah) Financial guarantees

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

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

## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### (ah) Financial guarantees *(continued)*

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

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

#### (ai) Segment reporting

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

#### (aj) Lease payments

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

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

#### (ak) Settlement date accounting

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

#### (al) Taxes

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

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

## Notes to the consolidated financial statements (continued)

### 3 Significant accounting policies (continued)

#### (am) New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a material impact on the Group's financial statements in the period of initial application.

**IFRS 15** *Revenue from contracts with customer*: issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It replaces all existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC Customer loyalty programmes.

IFRS 15 is effective for annual period beginning on or after 1 January 2018, with early adoption permitted. The Group has assessed the potential impact of this standard and believes that it will not have any material impact on its consolidated financial statements.

**IFRS 16** IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

IFRS 16 is effective for annual period beginning on or after 1 January 2019, with early adoption permitted. The Group is still in the process of assessing the impact.

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

#### Governance and project management

The adoption of IFRS 9 is a significant initiative for the Group, involving substantial finance, risk management and technology resources. The project was managed through a detailed governance structure across risk management, finance, technology, and the business units. The Group's existing system of internal controls will be refined and revised where required to meet the requirements of IFRS 9. The Group 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 accounting policies and 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 run was provided to the Group's senior management throughout 2017.

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 Standard introduces new requirements to determine the measurement basis of financial assets, involving the cash flow characteristics of assets and the business models under which they are managed. Accordingly, the basis of measurement for the Bank's financial assets may change. The Standard affects the accounting for available-for-sale equity securities, requiring a designation, by portfolio, between recording both unrealized and realized gains either through (i) OCI with no recycling to income or (ii) Income Statement. As a result, the amount of equity securities gains recorded through income is expected to be lower than current levels and levels recorded in recent

## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### (am) New standards and interpretations not yet adopted *(continued)*

years except for the private equity portfolio. For other financial instruments, the Bank does not expect the implementation will result in a significant change in the classification and measurement of the Bank's financial assets, between Amortized cost, Fair Value through OCI and Fair Value through Income Statement.

##### Hedge Accounting

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group has decided to exercise this accounting policy choice. However, the Group will implement the revised hedge accounting disclosures that are required by the IFRS 9 related amendments to IFRS 7 "Financial Instruments: Disclosures" in its 2018 Annual Report.

##### 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 deterioration from inception. ECL reflects, 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 and supportable forecasts.

The Bank has developed new methodologies and models taking into account the relative size, quality and complexity of the portfolios. IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

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. 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 significant increase in risk (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:

## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### (am) New standards and interpretations not yet adopted *(continued)*

##### Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant and at the segment level for retail exposures. This assessment is symmetrical in nature, subject to regulatory guidelines, 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.

The Bank will use three scenarios that will be probability weighted to determine ECL.

##### Experienced credit judgment

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

##### 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 certain revolving credit facilities that do not have a fixed maturity, the expected life should be 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.

##### 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.

##### Transition impact

The Group will record an adjustment to its opening January 1, 2018 retained earnings and OCI, to reflect the application of the new requirements of Impairment and Classification and Measurement at the adoption date and will not restate comparative periods.

The Group estimates the IFRS 9 transition amount will reduce shareholders' equity in the range of 2.8% to 3.2% of total shareholders' equity and common equity Tier 1 ratio by 57bps to 68bps. The estimated impact relates primarily to the implementation of the ECL requirements. The assessment made by the Group is preliminary and as part of the implementation of the new standard the Group will continue to refine its model assumptions, accounting policies, governance framework and estimation techniques employed leading up to 31 March 2018 reporting.

## Notes to the consolidated financial statements *(continued)*

### 3 Significant accounting policies *(continued)*

#### (am) New standards and interpretations not yet adopted *(continued)*

##### Transition impact *(continued)*

The Group's available for sale investments includes investments in private equity and shares in non-listed companies. As part of IFRS 9 transitional provision, investment in private equity will be classified to investment at fair value through profit or loss and mark to market changes in the investment going forward shall be accounted in profit or loss which would result in volatility in profit or loss. Equity shares in non-listed companies that are held for the foreseeable future shall be accounted through other comprehensive income and this application will not have significant impact in Group's performance.

Loans as well as receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will further analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

##### Hedge accounting

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9. The Group will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date.

##### Implementation status

The Group continues to progress with the Global IFRS 9 implementation project with the documentation of Group accounting policy, assessment of business models, the build and testing of risk modeling methodologies for the calculation of impairment currently ongoing. The implementation is overseen by Project Steering Committee comprising of key stakeholders from Finance, Risk and Technology.



## Notes to the consolidated financial statements *(continued)*

### 4 Financial risk management

#### Introduction and overview

##### Risk management framework

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

##### Composition of Board

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

##### Corporate Governance Framework

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

##### Risk Management Structure

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

##### Board Level Committees within the Group

###### Board Management Committee (“BMC”)

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

###### Board Risk and Compliance Committee (“BRCC”)

BRCC comprises three members of the BOD and the CEO and is responsible for recommending and setting the Group risk strategy, risk appetite, policy guidelines and subsequent monitoring adherence. The Committee meets quarterly or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in the BRCC’s charter.

## Notes to the consolidated financial statements *(continued)*

### 4 Financial risk management *(continued)*

#### Risk management framework *(continued)*

##### Board Level Committees within the Group *(continued)*

###### Board Audit Committee ("BAC")

BAC comprises three members of the BOD and the CEO. BAC ensures oversight of the effectiveness of the internal control systems and the quality and integrity of financial statements and financial reporting. The Committee meets quarterly or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in the Board Audit Committee's charter.

###### Remuneration and Nomination Committee ("REMCO")

REMCO comprises three members of the BOD and the CEO. REMCO recommends and oversees the appointment and termination of Directors and where appropriate members of the Group Executive Committee and ensures that they discharge their responsibilities in the interests of the shareholders and Group. The Committee also approves and oversees reward design and ensures it is appropriate and consistent with the Group's culture, values, business performance and risk strategy. The Committee meets at least twice a year or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in REMCO's charter.

##### Management Level Committees within the Group

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

###### Group Executive Committee ("EXCO")

EXCO is the most senior management committee operating under a delegated authority from the Board. It is responsible for managing strategic, financial and capital, risk and operational issues affecting the Group. The Group CEO and the Executive Management team (EXCO members) are principally responsible for executing the agreed business strategy, controlling and monitoring the risk within the agreed risk appetite. EXCO consists of the executive management team and is chaired by the Group Chief Executive Officer. The composition, guiding principles and detailed roles and responsibilities of EXCO are covered in the EXCO's charter.

###### Corporate & Investment Banking Credit Committee ("CIBCC")

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

###### Personal Banking Credit Committee ("PBCC")

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

###### Group Risk & Compliance Committee ("GRCC")

GRCC operates under a delegated authority from the EXCO and also assists the BRCC. The GRCC defines, develops and monitors the Group's risk appetite taking into account the Group's strategy and business planning. In addition, the GRCC is accountable to highlight, discuss and monitor key regulations, both local and international and as they apply to all businesses where the Group operates. The GRCC reports relevant matters to the EXCO and as appropriate to the BRCC, advising and informing them as required on the Group's risk appetite and framework and on key compliance and other regulatory risk matters. The composition, guiding principles and detailed roles and responsibilities of GRCC are covered in the GRCC's Charter.

## Notes to the consolidated financial statements *(continued)*

### 4 Financial risk management *(continued)*

#### Risk management framework *(continued)*

##### Management Level Committees within the Group *(continued)*

###### Group Asset Liability Management Committee ("GALCO")

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

###### Human Resources Steering Committee ("HRSC")

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

###### Real Estate Committee ("RECO")

RECO operates under a delegated authority from the EXCO and oversees and approves the Group's real estate investment activities, in line with effective market and liquidity risk management practices and in accordance with relevant Group risk policies. The composition, guiding principles and detailed roles and responsibilities of RECO are covered in the RECO's charter.

###### Islamic Banking Committee ("ISBC")

ISBC has been appointed by the EXCO to oversee and direct the Islamic Banking businesses of FAB conducted by its business units and subsidiary companies Abu Dhabi National Islamic Finance and Aseel Finance. The ISBC also provide clear direction of the Islamic banking market / businesses and issues that may arise including market conditions and trends across the UAE and beyond; considered responses to external trends and events on the Islamic businesses; common governance, legal or shariah compliance issues; potential synergies across the organization to aid and the future direction of the business; and updates on significant changes. The composition, guiding principles and detailed roles and responsibilities of ISBC are covered in the ISBC's charter.

###### International Banking Committee ("IBC")

IBC has been appointed under a delegated authority from EXCO to assist the EXCO in defining, developing and monitoring the holistic strategy for the FAB international business and evaluation of the international regions in line with the FAB's strategy and group-wide principles, including the need to meet the requirements of local laws and regulations. A key objective of the Committee is to set and approve the country strategies, structures, senior management, business review, systems and controls needed to drive the operations and business growth of the respective countries. The composition, guiding principles and detailed roles and responsibilities of IBC are covered in the IBC's charter.

###### Group Operations & Technology Committee ("GOTC")

GOTC has been appointed under a delegated authority from EXCO to provide leadership and governance over the Operations and Technology activities for the FAB group entities and ensure its effective strategy and plans are implemented within the FAB Group. The composition, guiding principles and detailed roles and responsibilities of GOTC are covered in the GOTC's charter.

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### Risk management framework (continued)

##### Management Level Committees within the Group (continued)

###### Integration Steering Committee (“ISC”)

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

##### **Group Risk Management and Compliance Function**

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

##### **Enterprise Risk Management Policy Framework**

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

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

#### (a) Credit risk

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

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### Risk Management Framework (continued)

#### (a) Credit risk (continued)

##### Management of credit risk

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

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

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

The Group uses an internal risk rating system to assess the credit quality of corporate borrowers and counterparties. Each corporate borrower is assigned a rating, including classified accounts. The risk rating system has 11 grades, further segregated into 24 notches. Grades 1-8 are performing and Grades 9 -11 are non – performing. Non-performing grades are classified based on the below criteria:

Grade	Classification	Criteria	
		Corporate loans	Retail loans
9	Sub-standard loans	Arrears 90 days or more and shows some loss due to adverse factors that hinder repayment	Arrears 90 days or more
10	Doubtful loans	Based on available information, full recovery seems doubtful, leading to a loss on portion of these loans	Arrears 120 days or more
11	Loss loans	Probability of no recovery; after all available courses of action are exhausted	Arrears 180 days or more

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (a) Credit risk (continued)

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

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

	Notes	Gross maximum exposure 2017 AED 000	Gross maximum exposure 2016 AED 000
Balances with Central Bank	7	136,332,892	24,329,649
Investments at fair value through profit or loss	8	18,761,276	827,558
Due from banks and financial institutions	9	13,829,490	12,932,570
Reverse repurchase agreements	10	21,346,974	5,449,019
Loans and advances	11	345,089,058	139,685,075
Non-trading investments	12	86,057,723	26,556,764
Other assets	16	15,542,116	6,733,506
Total		<b>636,959,529</b>	<b>216,514,141</b>
Derivatives held for trading		10,874,605	1,877,755
Derivatives held for hedging		524,827	75,248
Total		<b>11,399,432</b>	<b>1,953,003</b>
Contingent liabilities	37	152,437,597	60,155,516
Commitment	37	48,555,452	19,460,113
Total		<b>200,993,049</b>	<b>79,615,629</b>
Total credit risk exposure		<b>849,352,010</b>	<b>298,082,773</b>

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

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (a) Credit risk (continued)

The Group also measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any. The carrying amount of financial assets represents the credit exposure.

	Due from banks and financial institutions		Loans and advances		Non-trading debt investments	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
<b>Individually impaired</b>						
Substandard	-	-	2,695,901	1,467,173	-	-
Doubtful	-	-	5,035,135	997,208	-	-
Loss	-	-	4,761,119	1,791,115	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Gross amount	-	-	12,492,155	4,255,496	-	-
Interest in Suspense	-	-	(1,895,059)	(567,014)	-	-
Specific allowance for impairment	-	-	(4,581,263)	(1,870,123)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount	-	-	6,015,833	1,818,359	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Past due but not impaired</b>						
Past due comprises:						
Less than 30 days	-	-	1,397,938	2,186,041	-	-
31 – 60 days	-	-	2,138,504	650,345	-	-
61 – 90 days	-	-	1,305,531	571,782	-	-
More than 90 days	-	-	4,143,607	1,085,638	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount	-	-	8,985,580	4,493,806	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Neither past due nor impaired</b>	<b>13,829,490</b>	12,932,570	<b>323,611,323</b>	130,935,773	<b>86,057,723</b>	26,556,764
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Collective allowance for impairment</b>	-	-	<b>(8,146,848)</b>	(2,597,937)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Carrying amount</b>	<b>13,829,490</b>	12,932,570	<b>330,465,888</b>	134,650,001	<b>86,057,723</b>	26,556,764
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (a) Credit risk (continued)

##### *Impaired loans and advances and non-trading investments*

Impaired loans and advances and non-trading investments are financial assets for which the Group determines that there is objective evidence that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

##### *Past due but not impaired*

Past due but not impaired are accounts where either contractual principal or interest cash flows are past due but the assets are not impaired. When these accounts show weakness in the borrower's financial position and creditworthiness, and requires more than normal attention such weakness is specifically monitored to ensure that the quality of the asset does not further deteriorate. On this class of asset the Group believes that specific impairment is not appropriate at the current condition.

##### *Loans with renegotiated terms*

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

	2017 AED'000	2016 AED'000
Renegotiated loans	<u>4,492,817</u>	<u>1,711,799</u>

##### *Allowances for impairment*

The Group establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss allowance. In assessing the collective loss allowance, the Group applies IFRS and the central bank guidelines to cover incurred but not identified losses established for groups of homogeneous assets with similar risk characteristics that are indicative of the debtor's ability to pay amounts due according to the contractual terms on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Individually assessed loans are required to be classified as impaired as soon as there is objective evidence that an impairment loss has been incurred. Objective evidence of impairment includes observable data such as when contractual payment of principal or interest is overdue and there is known difficulties in the cash flows of counterparties, credit rating downgrades or original terms of the contractual repayment are unable to be met.

##### *Write-off policy*

The Group writes off a loan or investment balance (and any related allowances for impairment losses) when it determines that the loans or investments are uncollectible. This is determined after all possible efforts of collecting the amounts have been exhausted.



## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (a) Credit risk (continued)

##### *Credit Risk Mitigants*

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

An estimate of the collateral coverage against non-performing loans and advances is shown below:

	2017 AED’000	2016 AED’000
<b>Collateral value cover</b>		
0 – 50%	5,941,948	3,634,971
50 – 100%	1,777,719	368,610
Above 100%	4,772,488	251,915
<b>Total Gross non-performing loans</b>	<b>12,492,155</b>	<b>4,255,496</b>

While the Group might not have repossessed significant amount of collateral in 2016 and 2017, maintaining repossession rights assist the Group in the restructuring and settlement of non-performing loans.

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

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (a) Credit risk (continued)

##### Concentrations by industry sector

	Loans and advances		Investments		Reverse repurchase agreements		Undrawn loan Commitments	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
Agriculture	435,808	258,554	-	-	-	-	-	-
Energy	24,225,459	7,468,852	13,169,794	2,560,093	-	-	7,510,896	1,795,219
Manufacturing	20,178,714	6,478,057	392,044	447,780	-	-	4,653,908	522,760
Construction	12,034,840	6,521,141	72,941	-	-	-	952,194	75,104
Real estate	90,530,386	16,654,545	750,167	1,125,675	-	-	13,361,067	736,602
Trading	22,877,522	16,863,044	126,687	-	-	-	2,170,578	1,808,187
Transport and communication	26,421,661	12,644,751	5,077,269	833,764	-	-	5,196,425	505,970
Banks	21,099,155	4,528,512	26,090,385	6,408,978	17,970,093	4,479,020	6,239,227	8,795,550
Other financial institutions	26,641,128	6,322,747	17,883,900	5,274,623	3,376,881	969,999	2,709,145	894,474
Services	24,228,514	23,772,663	485,699	2,051,174	-	-	2,185,704	2,508,576
Government	5,006,234	268,002	43,354,376	8,880,810	-	-	1,159,921	313,743
Personal – Loans & Credit cards	71,221,315	37,853,660	-	-	-	-	1,754,283	269,478
Others	188,322	50,547	375,212	1,730,126	-	-	662,104	1,234,450
	<b>345,089,058</b>	<b>139,685,075</b>	<b>107,778,474</b>	<b>29,313,023</b>	<b>21,346,974</b>	<b>5,449,019</b>	<b>48,555,452</b>	<b>19,460,113</b>

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

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (a) Credit risk (continued)

Concentration by location:

	UAE AED'000	Europe AED'000	Arab countries AED'000	Americas AED'000	Asia AED'000	Others AED'000	Total AED'000
<i>As at 31 Dec 2017</i>							
Cash and balances with central banks	41,841,692	57,579,526	7,174,336	31,450,850	64,650	-	138,111,054
Investments at fair value through profit or loss	6,357,372	2,007,556	4,327,245	163,758	6,359,273	105,560	19,320,764
Due from banks and financial institutions	159,496	10,394,394	1,630,653	765,592	805,596	73,759	13,829,490
Reverse repurchase agreements	2,631,845	14,204,929	3,198,329	143,116	801,455	367,300	21,346,974
Derivative financial instruments	2,099,778	7,527,951	1,060,508	59,158	616,860	35,177	11,399,432
Loans and advances	225,405,728	41,443,951	26,839,708	26,629,511	21,368,849	3,401,312	345,089,058
Non trading investments	32,994,218	16,035,290	15,681,376	11,951,579	11,084,991	710,256	88,457,710
	<u>311,490,129</u>	<u>149,193,597</u>	<u>59,912,155</u>	<u>71,163,564</u>	<u>41,101,674</u>	<u>4,693,364</u>	<u>637,554,482</u>
<i>As at 31 Dec 2016</i>							
Cash and balances with central banks	21,518,665	-	3,218,512	-	39,540	-	24,776,717
Investments at fair value through profit or loss	472,297	96,866	131,607	88,282	92,038	18,434	899,524
Due from banks and financial institutions	5,107,732	2,322,276	414,390	1,707,300	3,359,589	21,283	12,932,570
Reverse repurchase agreements	1,212,812	3,979,378	-	256,829	-	-	5,449,019
Derivative financial instruments	906,498	917,156	75,514	652	41,576	11,607	1,953,003
Loans and advances	101,812,066	5,556,248	5,480,982	13,580,520	11,144,021	2,111,238	139,685,075
Non trading investments	6,868,946	2,247,595	2,918,619	8,700,291	5,944,037	1,734,011	28,413,499
	<u>137,899,016</u>	<u>15,119,519</u>	<u>12,239,624</u>	<u>24,333,874</u>	<u>20,620,801</u>	<u>3,896,573</u>	<u>214,109,407</u>

Concentration by location for investments is measured based on the location of the issuer of the security. Concentration by location for all others is measured based on the residential status of the borrower. The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any. Concentration by location for undrawn commitments is stated in note 37 of these consolidated financial statements.

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (a) Credit risk (continued)

Classification of investments as per their external ratings:

	Non-trading investments		Investments at fair value through profit or loss	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
AAA	13,736,429	6,062,533	93,281	7,356
AA to A	55,568,380	10,371,173	12,451,229	549,436
BBB to B	14,561,101	9,966,687	5,924,467	270,766
CCC and below	26,535	-	27	-
Unrated	4,565,265	2,013,106	851,760	71,966
	<b>88,457,710</b>	<b>28,413,499</b>	<b>19,320,764</b>	<b>899,524</b>

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

Classification of investments as per their counterparties:

	Non-trading investments		Investments at fair value through profit or loss	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
Government sector	38,956,577	8,822,043	4,397,799	58,767
Supranational	3,180,983	2,762,447	915,279	7,356
Public Sector	23,521,158	5,742,681	2,287,703	125,627
Banking sector	15,019,621	5,961,822	11,070,764	447,156
Corporate / private sector	7,779,371	5,124,506	649,219	260,618
	<b>88,457,710</b>	<b>28,413,499</b>	<b>19,320,764</b>	<b>899,524</b>

#### Settlement risk

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

#### Derivative related credit risk

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

## Notes to the consolidated financial statements *(continued)*

### 4 Financial risk management *(continued)*

#### (b) Liquidity risk

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

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

##### *Management of liquidity risk*

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

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

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

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

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

##### *Exposure to liquidity risk*

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

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (b) Liquidity risk (continued)

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

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
<b>Assets</b>							
Cash and balances with central banks	138,111,054	129,444,974	8,666,080	-	-	-	-
Investments at fair value through profit or loss	19,320,764	5,332,119	6,777,244	4,610,671	1,113,740	927,502	559,488
Due from banks and financial institutions	13,829,490	13,827,603	1,887	-	-	-	-
Reverse repurchase agreements	21,346,974	13,396,537	7,950,437	-	-	-	-
Derivative financial instruments <sup>1</sup>	11,399,432	1,821,287	1,456,835	2,248,883	2,428,292	3,444,135	-
Loans and advances	330,465,888	64,252,351	37,974,179	57,478,522	62,089,240	108,671,596	-
Non-trading investments	88,457,710	3,148,594	4,379,228	19,239,841	20,814,826	38,475,234	2,399,987
Investment properties	6,927,692	-	-	-	-	-	6,927,692
Property and equipment	3,535,501	-	-	-	-	-	3,535,501
Intangibles	19,901,374	-	-	-	-	-	19,901,374
Other assets	15,672,416	11,754,312	3,918,104	-	-	-	-
	<u>668,968,295</u>	<u>242,977,777</u>	<u>71,123,994</u>	<u>83,577,917</u>	<u>86,446,098</u>	<u>151,518,467</u>	<u>33,324,042</u>
<b>Liabilities and equity</b>							
Due to banks and financial institutions	30,576,336	25,375,102	4,980,891	220,343	-	-	-
Repurchase agreements	37,674,016	37,055,277	618,739	-	-	-	-
Commercial Paper	24,124,097	19,931,271	4,192,826	-	-	-	-
Derivative financial instruments <sup>1</sup>	14,941,331	2,049,661	1,466,528	2,812,421	2,976,936	5,635,785	-
Customer accounts and other deposits	395,843,664	340,455,577	50,526,974	3,622,508	1,083,074	155,531	-
Term borrowings	42,145,718	3,198,475	2,704,263	22,395,771	3,527,616	10,319,593	-
Subordinated notes	420,381	-	-	-	-	420,381	-
Other liabilities	21,033,339	15,787,256	5,246,083	-	-	-	-
Equity	102,209,413	-	-	-	-	-	102,209,413
	<u>668,968,295</u>	<u>443,852,619</u>	<u>69,736,304</u>	<u>29,051,043</u>	<u>7,587,626</u>	<u>16,531,290</u>	<u>102,209,413</u>
Undrawn commitments to extend credit	48,555,452	8,397,720	11,189,943	15,505,443	8,394,354	5,067,992	-
Trade contingencies	152,437,597	63,054,997	21,827,746	24,919,436	11,349,322	31,286,096	-

<sup>1</sup>The Group has the option to liquidate the derivatives at any point of time.

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (b) Liquidity risk (continued)

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

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
<b>Assets</b>							
Cash and balances with central banks	24,776,717	20,326,717	2,950,000	1,500,000	-	-	-
Investments at fair value through profit or loss	899,524	518,630	196,382	92,937	19,608	-	71,967
Due from banks and financial institutions	12,932,570	12,932,570	-	-	-	-	-
Reverse repurchase agreements	5,449,019	5,449,019	-	-	-	-	-
Derivative financial instruments <sup>1</sup>	1,953,003	266,261	292,309	568,683	454,359	371,391	-
Loans and advances	134,650,001	28,129,233	20,286,382	20,976,572	19,798,824	45,458,990	-
Non-trading investments	28,413,499	6,806,345	1,217,458	8,554,715	7,546,469	2,431,777	1,856,735
Investment properties	6,422,502	-	-	-	-	-	6,422,502
Property and equipment	1,528,255	-	-	-	-	-	1,528,255
Intangibles	170,398	-	-	-	-	-	170,398
Other assets	6,784,453	5,088,341	1,696,112	-	-	-	-
	<u>223,979,941</u>	<u>79,517,116</u>	<u>26,638,643</u>	<u>31,692,907</u>	<u>27,819,260</u>	<u>48,262,158</u>	<u>10,049,857</u>
<b>Liabilities and equity</b>							
Due to banks and financial institutions	11,585,628	7,982,369	3,603,259	-	-	-	-
Repurchase agreements	13,109,155	10,469,838	2,639,317	-	-	-	-
Commercial Paper	10,016,916	7,669,957	2,346,959	-	-	-	-
Derivative financial instruments <sup>1</sup>	2,835,008	526,868	490,704	869,664	405,888	541,884	-
Customer accounts and other deposits	125,782,798	97,442,786	27,284,948	934,618	120,446	0	-
Term borrowings	18,294,545	5,509,500	2,387,450	4,838,511	3,572,086	1,986,998	-
Other liabilities	4,698,919	4,698,919	-	-	-	-	-
Equity	37,656,972	-	-	-	-	-	37,656,972
	<u>223,979,941</u>	<u>134,300,237</u>	<u>38,752,637</u>	<u>6,642,793</u>	<u>4,098,420</u>	<u>2,528,882</u>	<u>37,656,972</u>
Undrawn commitments to extend credit	19,460,113	12,344,459	6,418,124	374,853	260,971	61,706	-
Trade contingencies	60,155,516	42,796,041	6,691,209	7,720,591	1,466,588	1,481,087	-

<sup>1</sup>The Group has the option to liquidate the derivatives at any point of time.

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (b) Liquidity risk (continued)

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

Liabilities	Total AED'000	Gross nominal cash flows AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000
<b>As at 31 December 2017</b>							
Due to banks and financial institutions	30,576,336	30,728,564	25,451,000	5,057,221	-	220,343	-
Repurchase agreements	37,674,016	37,806,050	37,182,253	623,797	-	-	-
Commercial Paper	24,124,097	24,159,369	19,938,576	4,220,793	-	-	-
Customer accounts and other deposits	395,843,664	397,574,720	340,875,246	51,346,184	3,864,764	1,267,010	221,516
Term borrowings	42,145,718	43,240,770	1,316,898	1,791,189	17,085,268	2,123,748	20,923,667
Subordinated notes	420,381	737,500	-	23,685	47,565	47,630	618,620
	<u>530,784,212</u>	<u>534,246,973</u>	<u>424,763,973</u>	<u>63,062,869</u>	<u>20,997,597</u>	<u>3,658,731</u>	<u>21,763,803</u>
Undrawn commitments to extend credit <sup>1</sup>	48,555,452	48,555,452	8,397,720	11,189,943	15,505,443	8,394,354	5,067,992
Trade contingencies	152,437,597	152,437,597	63,054,997	21,827,746	24,919,436	11,349,322	31,286,096
	<u>152,437,597</u>	<u>152,437,597</u>	<u>63,054,997</u>	<u>21,827,746</u>	<u>24,919,436</u>	<u>11,349,322</u>	<u>31,286,096</u>
<b>As at 31 December 2016</b>							
Due to banks and financial institutions	11,585,628	11,631,764	6,906,884	4,724,880	-	-	-
Repurchase agreements	13,109,155	13,167,923	10,479,991	2,627,212	60,720	-	-
Commercial Paper	10,016,916	10,036,605	7,679,386	2,357,219	-	-	-
Customer accounts and other deposits	125,782,798	126,693,705	94,842,685	28,234,096	2,934,060	612,520	70,344
Term borrowings	18,294,545	20,116,899	1,942,973	2,709,702	9,088,210	3,742,474	2,633,540
Subordinated notes	-	-	-	-	-	-	-
	<u>178,789,042</u>	<u>181,646,896</u>	<u>121,851,919</u>	<u>40,653,109</u>	<u>12,082,990</u>	<u>4,354,994</u>	<u>2,703,884</u>
Undrawn commitments to extend credit <sup>1</sup>	19,460,113	19,460,113	12,344,459	6,418,124	374,853	260,971	61,706
Trade contingencies	60,155,516	60,155,516	42,796,041	6,691,209	7,720,591	1,466,588	1,481,087
	<u>60,155,516</u>	<u>60,155,516</u>	<u>42,796,041</u>	<u>6,691,209</u>	<u>7,720,591</u>	<u>1,466,588</u>	<u>1,481,087</u>

<sup>1</sup>Calculated as per the contractual maturity profile.



## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (c) Market risk

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

##### Management of market risk

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

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

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

##### Exposure to market risks – trading portfolios

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

The Group uses VaR limits for foreign exchange, interest rate and credit spread. The overall structure of Trading VaR limits is subject to review and approval by the IMCO and then ratified at GRCC. VaR limits are then cascaded down to trading desks.

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

	2017 AED'000
<b><u>VaR – Trading Book</u></b>	<b>19,018</b>
Foreign exchange	11,596
Interest Rate	13,312
Credit	4,002
Equity	511
Diversification benefit	<b>(10,403)</b>

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

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (c) Market risk (continued)

##### Exposure to market risk – banking portfolios

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

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

	2017 AED'000
<b>VaR – Banking Book</b>	<b>121,157</b>
Foreign exchange	14,794
Interest Rate	55,306
Credit	128,809
Diversification benefit	(77,752)

##### Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities. Overall interest rate risk positions are managed by using derivative instruments to manage overall position arising from the Group's interest bearing financial instruments. The use of derivatives to manage interest rate risk is described in note 38.

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 50 basis points (2016: 50 basis points) and estimates the following impact on the net profit for the year and equity at that date:

	Net profit for the year		Equity	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
Fluctuation in yield	<b>±547,255</b>	± 139,906	<b>±494,890</b>	± 290,008

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 498,775 million (2016: AED 160,575 million) interest bearing assets and AED 402,248 million (2016: AED 134,902 million) interest bearing liabilities with interest re-pricing less than one year, for assessing the impact on net profit. The impact on equity includes the impact on net profit and the interest rate sensitivity on the available for sale portfolio. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (c) Market risk (continued)

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

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000
<b>Assets</b>							
Cash and balances with central banks	138,111,054	120,755,325	8,666,080	-	-	-	8,689,649
Investments at fair value through profit or loss	19,320,764	8,785,020	5,744,846	2,363,842	1,074,972	792,596	559,488
Due from banks and financial institutions	13,829,490	10,277,717	110,190	-	-	-	3,441,583
Reverse repurchase agreements	21,346,974	13,396,536	7,950,438	-	-	-	-
Derivative financial instruments	11,399,432	-	-	-	-	-	11,399,432
Loans and advances	330,465,888	279,399,268	33,135,204	8,444,686	3,473,496	11,824,783	(5,811,549)
Non-trading investments	88,457,710	6,104,190	4,450,640	18,941,715	18,633,642	37,832,551	2,494,972
Investment properties	6,927,692	-	-	-	-	-	6,927,692
Intangible assets	19,901,374	-	-	-	-	-	19,901,374
Property and equipment	3,535,501	-	-	-	-	-	3,535,501
Other assets	15,672,416	-	-	-	-	-	15,672,416
	<u>668,968,295</u>	<u>438,718,056</u>	<u>60,057,398</u>	<u>29,750,243</u>	<u>23,182,110</u>	<u>50,449,930</u>	<u>66,810,558</u>
<b>Liabilities and equity</b>							
Due to banks and financial institutions	30,576,336	22,745,363	4,980,891	220,343	-	-	2,629,739
Repurchase agreements	37,674,016	37,055,277	618,739	-	-	-	-
Commercial Paper	24,124,097	19,931,271	4,192,826	-	-	-	-
Derivative financial instruments	14,941,331	-	-	-	-	-	14,941,331
Customer accounts and other deposits	395,843,664	259,294,389	38,848,293	5,190,391	637,712	155,531	91,717,348
Term borrowings	42,145,718	14,098,549	482,264	14,033,474	3,211,838	10,319,593	-
Other liabilities	21,033,339	-	-	-	-	-	21,033,339
Subordinated notes	420,381	-	-	-	-	420,381	-
Equity	102,209,413	-	-	-	-	-	102,209,413
	<u>668,968,295</u>	<u>353,124,849</u>	<u>49,123,013</u>	<u>19,444,208</u>	<u>3,849,550</u>	<u>10,895,505</u>	<u>232,531,170</u>
On statement of financial position gap		85,593,207	10,934,385	10,306,035	19,332,560	39,554,425	(165,720,612)
Off statement of financial position gap		39,660,765	(11,324,517)	7,497,522	(11,413,602)	(24,420,168)	-
<b>Total interest rate sensitivity gap</b>		<u>125,253,972</u>	<u>(390,132)</u>	<u>17,803,557</u>	<u>7,918,958</u>	<u>15,134,257</u>	<u>(165,720,612)</u>
<b>Cumulative interest rate sensitivity</b>		<u>125,253,972</u>	<u>124,863,840</u>	<u>142,667,397</u>	<u>150,586,355</u>	<u>165,720,612</u>	<u>-</u>

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (c) Market risk (continued)

The Group's interest rate gap and sensitivity position based on contractual re-pricing arrangements at 31 December 2016 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000
<b>Assets</b>							
Cash and balances with central banks	24,776,717	12,085,116	2,950,000	1,500,000	-	-	8,241,601
Investments at fair value through profit or loss	899,524	899,524	-	-	-	-	-
Due from banks and financial institutions	12,932,570	12,494,080	400,041	603	37,510	336	-
Reverse repurchase agreements	5,449,019	5,449,019	-	-	-	-	-
Derivative financial instruments	1,953,003	-	-	-	-	-	1,953,003
Loans and advances	134,650,001	100,037,878	17,127,427	4,756,906	2,277,771	15,515,062	(5,065,043)
Non-trading investments	28,413,499	7,910,733	1,220,872	8,462,912	6,692,956	2,207,243	1,918,783
Investment properties	6,422,502	-	-	-	-	-	6,422,502
Property and equipment	1,528,255	-	-	-	-	-	1,528,255
Intangibles	170,398	-	-	-	-	-	170,398
Other assets	6,784,453	-	-	-	-	-	6,784,453
	<u>223,979,941</u>	<u>138,876,350</u>	<u>21,698,340</u>	<u>14,720,421</u>	<u>9,008,237</u>	<u>17,722,641</u>	<u>21,953,952</u>
<b>Liabilities and equity</b>							
Due to banks and financial institutions	11,585,628	6,878,217	4,707,411	-	-	-	-
Repurchase agreements	13,109,155	10,453,373	2,655,782	-	-	-	-
Commercial Paper	10,016,916	7,669,957	2,346,959	-	-	-	-
Derivative financial instruments	2,835,008	-	-	-	-	-	2,835,008
Customer accounts and other deposits	125,782,798	66,951,378	24,925,278	3,061,957	120,446	-	30,723,739
Term borrowings	18,294,545	5,926,611	2,387,450	4,569,174	3,446,346	1,964,964	-
Other liabilities	4,698,919	-	-	-	-	-	4,698,919
Equity	37,656,972	-	-	-	-	-	37,656,972
	<u>223,979,941</u>	<u>97,879,536</u>	<u>37,022,880</u>	<u>7,631,131</u>	<u>3,566,792</u>	<u>1,964,964</u>	<u>75,914,638</u>
On statement of financial position gap		40,996,814	(15,324,540)	7,089,290	5,441,445	15,757,677	(53,960,686)
Off statement of financial position gap		5,728,198	171,512	(1,388,234)	(1,653,480)	(2,857,996)	-
<b>Total interest rate sensitivity gap</b>		<u>46,725,012</u>	<u>(15,153,028)</u>	<u>5,701,056</u>	<u>3,787,965</u>	<u>12,899,681</u>	<u>(53,960,686)</u>
<b>Cumulative interest rate sensitivity</b>		<u>46,725,012</u>	<u>31,571,984</u>	<u>37,273,040</u>	<u>41,061,005</u>	<u>53,960,686</u>	<u>-</u>

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (c) Market risk (continued)

##### Foreign exchange risk

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

Currency	Net spot position (short)/long AED'000	Forward position (short)/long AED'000	Total 2017 (short)/long AED'000	Total 2016 (short)/long AED'000
US Dollar	27,925,843	14,267,865	<b>42,193,708</b>	(2,249,437)
UK Sterling Pound	(23,056,386)	23,990,456	<b>934,070</b>	(57,376)
Euro	53,331,952	(50,797,102)	<b>2,534,850</b>	2,440,349
Kuwaiti Dinar	254,327	(546,777)	<b>(292,450)</b>	860
Saudi Riyal	(869,623)	(2,821,384)	<b>(3,691,007)</b>	1,717
Japanese Yen	5,010,841	(4,855,121)	<b>155,720</b>	54,031
Swiss Franc	(1,066,098)	1,131,805	<b>65,707</b>	3,953
Qatari Riyal	497,920	(341,602)	<b>156,318</b>	6,489
Bahraini Dinar	640,186	(844,215)	<b>(204,029)</b>	379
Egyptian Pound	447,656	(391,179)	<b>56,477</b>	13
Jordanian Dinar	582,753	(249,390)	<b>333,363</b>	220
Indian Rupees	2,492,980	(97,284)	<b>2,395,696</b>	(573,390)
Malaysian Ringgit	(36,649)	101,635	<b>64,986</b>	159
Libyan Dinar	323,140	-	<b>323,140</b>	305,959
Others	(5,064,504)	5,420,100	<b>355,596</b>	(9,303)

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2017 and 2016 on its monetary assets, liabilities and net derivatives forward position. The analysis estimates the effect of a reasonably possible movement of AED against other currencies, with all other variables held constant on the consolidated income statement.

Currency	EUR	GBP	JPY	Libyan Dinar
Assumed change in exchange rates	1%	1%	1%	1%
Impact on net income in exchange rate:				
<b>2017 (AED 000)</b>	<b>± 25,348</b>	<b>± 9,341</b>	<b>± 1,557</b>	<b>± 3,231</b>
2016 (AED 000)	± 867	± 574	± 540	± 3,060

At 31 December 2017 and 2016, the effect of the assumed changes in exchange rates on equity is insignificant.

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (c) Market risk (continued)

##### Equity price risk

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

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

	Assumed level of change %	Impact on net income 2017 AED 000	Impact on net income 2016 AED 000
<b>Investments carried at fair value through profit or loss</b>			
Reference equity benchmarks:			
Dubai Financial Market Index	5%	23,747	-
Net asset value of managed funds	5%	2,786	2,549
Other equity exchanges	5%	1,079	680
Unquoted	5%	362	369
		<u>27,974</u>	<u>3,598</u>

The effect on equity as a result of a change in the fair value of equity instruments held as available for sale at 31 December 2017 and 2016, due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Assumed level of change %	Impact on net income 2017 AED 000	Impact on net Income 2016 AED 000
<b>Non-trading investments (excluding investment in associates and joint ventures)</b>			
Reference equity benchmarks:			
Abu Dhabi Securities Exchange Index	5%	11,480	789
Dubai Financial Market Index	5%	4,237	771
Net asset value of managed funds	5%	85,763	76,282
Other equity exchanges	5%	6,801	5,458
Unquoted	5%	8,230	7,468
		<u>116,511</u>	<u>90,768</u>

## Notes to the consolidated financial statements *(continued)*

### 4 Financial risk management *(continued)*

#### (d) Operational risk

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

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

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

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

Typically, Operational Risk events are classified as:

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

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

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

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

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (e) Capital management

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

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

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

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

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

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

The Group conducts regular stress test exercises in which the Balance Sheet and Profit or Loss statements are determined for base case and stress scenarios. The risk factors are impacted by the assumptions made for the base and stress scenarios and the corresponding impact on the capital adequacy is determined. The Group uses macroeconomic stress tests in order to project capital need and capital levels under various unfavourable scenarios. The tests are perceived as an important tool in internal capital planning. The stress test result during 2017 shows that the Group has adequate capital even under adverse scenarios.



## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (e) Capital management (continued)

The Group's regulatory capital adequacy ratio, set by the Central Bank of the UAE at a minimum level of 12% (2016: 12%), of which Tier 1 is to be 8% (2016: 8%) is analysed into two tiers as follows; Ratios presented below is without considering the impact of proposed dividend.

	Basel II 2017 AED'000	Basel II 2016 AED'000
<b>Tier 1 capital</b>		
Ordinary share capital	10,897,545	4,500,000
Share premium	53,026,643	-
Retained earnings	18,677,552	16,969,016
Statutory and special reserve	7,081,084	11,723,501
General reserve and share option scheme	120,000	120,000
Foreign currency translation reserve	(63,075)	(88,327)
Tier 1 capital notes	10,754,750	4,000,000
Deductions from Tier 1 capital	(62,586)	(5,193,391)
Non-controlling Interests	487,015	432,782
Less : Goodwill and Intangible assets	(20,263,462)	(170,398)
<b>Total</b>	<b>80,655,466</b>	<b>32,293,183</b>
<b>Tier 2 capital</b>		
Fair value reserve	281,345	185,755
Qualifying subordinated liabilities	420,381	-
Allowance for collective impairment	5,270,024	2,113,568
Deductions from Tier 2 capital	(20,152)	-
	<b>5,951,598</b>	<b>2,299,323</b>
<b>Total regulatory capital base</b>	<b>86,607,064</b>	<b>34,592,506</b>
<i>Risk weighted assets:</i>		
Credit risk	421,602,405	169,085,422
Market risk	28,054,810	3,077,212
Operational risk	35,619,434	16,567,283
<b>Risk weighted assets</b>	<b>485,276,649</b>	<b>188,729,917</b>
<b>Tier 1 capital ratio</b>	<b>16.6%</b>	<b>17.1%</b>
<b>Capital adequacy ratio</b>	<b>17.8%</b>	<b>18.3%</b>

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

## Notes to the consolidated financial statements (continued)

### 4 Financial risk management (continued)

#### (e) Capital management (Unaudited) (continued)

	Basel III 2017 AED'000
<b>Tier 1 capital</b>	
Ordinary share capital	10,897,545
Share premium	53,026,643
Retained earnings	18,677,552
Statutory and special reserve	7,081,084
General reserve and share option scheme	120,000
Fair value reserve	281,345
Non-controlling Interests	487,015
	<hr/>
Eligible Tier 1 capital (a)	90,571,184
Deductions:	
Foreign currency translation reserve	(63,075)
Treasury shares	(42,434)
Deferred tax assets	(36,585)
Goodwill and Intangible assets	(20,263,462)
	<hr/>
Total deductions	(20,405,556)
	<hr/>
Less: Transitional Deduction from CET 1 (b)	(16,324,445)
	<hr/>
	74,246,739
	<hr/>
<b>Additional Tier 1</b>	
Tier 1 capital notes	10,754,750
Transitional Deduction from AT1	(2,040,556)
	<hr/>
Additional Tier 1 (d)	8,714,194
	<hr/>
	82,960,933
	<hr/>
<b>Tier 2 capital</b>	
Qualifying subordinated liabilities	420,381
Allowance for collective impairment	5,270,024
Transitional Deduction from AT1	(2,040,556)
	<hr/>
	3,649,849
	<hr/>
<b>Total regulatory capital base</b>	86,610,782
	<hr/> <hr/>
<i>Risk weighted assets:</i>	
Credit risk	421,666,579
Market risk	28,054,810
Operational risk	35,619,434
	<hr/>
<b>Risk weighted assets</b>	485,340,823
	<hr/> <hr/>
<b>Ratios with transition impact:</b>	
CET 1 ratio	15.3%
Tier 1 capital ratio	17.1%
Capital adequacy ratio	17.8%
	<hr/> <hr/>

## Notes to the consolidated financial statements *(continued)*

### 4 Financial risk management *(continued)*

#### (f) Country risk

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

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

#### (g) Strategic risk

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

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

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

#### (h) Compliance risk

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

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

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

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

## Notes to the consolidated financial statements *(continued)*

### 4 Financial risk management *(continued)*

#### (i) Reputation risk

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

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

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

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

### 5 Use of estimates and judgements

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

#### *Key sources of estimation uncertainty*

#### (a) Going concern

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

#### (b) Impairment charge on loans and advances and non-trading investments

Impairment losses are evaluated as described in accounting policy 3(b) (vii) and 4(a).

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

## Notes to the consolidated financial statements *(continued)*

### 5 Use of estimates and judgements *(continued)*

#### (c) Collective impairment charge

Collective impairment charge is evaluated as described in accounting policy 3(b) (vii) and 4(a).

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

#### (d) Impairment charge on property and equipment

Impairment losses are evaluated as described in accounting policy 3(k) (iv).

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

#### (e) Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

#### (f) Share option scheme

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

#### (g) Valuation of financial instruments

The valuation techniques of financial instruments may require certain unobservable inputs to be estimated by the management. These are discussed in detail in note 6.

#### (h) Defined benefit plan

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

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

Other key assumptions for defined benefit obligations are based in part on current market conditions. Additional information on these assumptions is disclosed in note 21.

## Notes to the consolidated financial statements (continued)

### 5 Use of estimates and judgements (continued)

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

#### (a) Financial asset and liability classification

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets as "fair value through profit or loss", "held-to-maturity" or "available-for-sale", the Group has determined it meets the description as set out in policy 3(b) (ii).

#### (b) Qualifying hedge relationships

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

#### (c) Determination of fair value hierarchy of financial instruments

The Group's determination of fair value hierarchy of financial instruments is discussed in note 6.

#### (d) Structured entities

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

#### (e) Operating segments

In preparation of the segment information disclosure, the management has made certain assumptions to arrive at the segment reporting. These assumptions would be reassessed by the management on a periodic basis. Operating segments are detailed in note 39.

## 6 Financial assets and liabilities

### (a) Valuation control framework

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

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

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

The Group estimates that the fair value of its loans and advances portfolio is not materially different from its carrying value since the majority of loans and advances carry floating market rates of interest and are frequently re-priced. For

## Notes to the consolidated financial statements *(continued)*

### 6 Financial assets and liabilities *(continued)*

#### (a) Valuation control framework *(continued)*

loans considered impaired, expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time to collect, the net result of which is not materially different from the carrying value.

#### (b) Determination of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

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

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

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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

#### (c) Valuation techniques

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

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

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

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

For more complex instruments, the Group uses third party valuation models, which are developed from recognised valuation models. These valuation models require expert judgement for the selection of the most appropriate valuation model to be used including input market data and underlying assumptions for the determination of fair value.

## Notes to the consolidated financial statements *(continued)*

### 6 Financial assets and liabilities *(continued)*

#### (c) Valuation techniques *(continued)*

Model inputs and parameters can be calibrated for market prices for plain vanilla instruments, published forecasts and current or recent observed transactions in similar instruments. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and expert judgement is required to select the most appropriate point in the range.

#### (d) Fair Value adjustments

##### ***Credit Valuation Adjustments ("CVA")***

The Group modelled the CVA adjustment in 2016 taking into account trades subject to collateral and netting agreements. The methodology for CVA calculation relies on three components: a loss given default assumption is used for the exposures, the probability of default of the counterparty is implied from credit default spreads or sector curves determined by combining the rating, the sector and the region, the expected positive exposure is calculated using simulation methodology. The methodology does not account for wrong way risk.

##### ***Model-related adjustments***

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



## Notes to the consolidated financial statements (continued)

### 6 Financial assets and liabilities (continued)

#### (e) Fair value of financial instruments

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

	Designated at fair value through profit or loss AED'000	Held for trading AED'000	Available for sale AED'000	Held to maturity AED'000	Loans and receivables AED'000	Amortised cost AED'000	Carrying amount AED'000
<b>Financial Assets</b>							
Cash and balances with central banks	-	-	-	-	138,111,054	-	138,111,054
Investments at fair value through profit or loss	11,122	19,309,642	-	-	-	-	19,320,764
Due from banks and financial institutions	-	-	-	-	13,829,490	-	13,829,490
Reverse repurchase agreements	-	-	-	-	21,346,974	-	21,346,974
Derivative financial instruments	524,827	10,874,605	-	-	-	-	11,399,432
Loans and advances	-	-	-	-	330,465,888	-	330,465,888
Non-trading investments	-	-	81,312,483	7,075,467	-	-	88,387,950
Other assets	-	-	-	-	15,542,116	-	15,542,116
	<u>535,949</u>	<u>30,184,247</u>	<u>81,312,483</u>	<u>7,075,467</u>	<u>519,295,522</u>	-	<u>638,403,668</u>
<b>Financial Liabilities</b>							
Due to banks and financial institutions	-	-	-	-	-	30,576,336	30,576,336
Repurchase agreements	-	-	-	-	-	37,674,016	37,674,016
Commercial Paper	-	-	-	-	-	24,124,097	24,124,097
Derivative financial instruments	4,975,181	9,966,150	-	-	-	-	14,941,331
Customer accounts and other deposits	-	-	-	-	-	395,843,664	395,843,664
Term borrowings	-	-	-	-	-	42,145,718	42,145,718
Other liabilities <sup>1</sup>	-	1,814,526	-	-	-	18,145,142	19,959,668
Subordinated notes	-	-	-	-	-	420,381	420,381
	<u>4,975,181</u>	<u>11,780,676</u>	-	-	-	<u>548,929,354</u>	<u>565,685,211</u>

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

## Notes to the consolidated financial statements (continued)

### 6 Financial assets and liabilities (continued)

#### (e) Fair value of financial instruments (continued)

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2016:

	Designated at fair value through profit or loss AED'000	Held for trading AED'000	Available for sale AED'000	Held to maturity AED'000	Loans and receivables AED'000	Amortised cost AED'000	Carrying amount AED'000
<b>Financial Assets</b>							
Cash and balances with central banks	-	-	-	-	24,776,717	-	24,776,717
Investments at fair value through profit or loss	-	899,524	-	-	-	-	899,524
Due from banks and financial institutions	-	-	-	-	12,932,570	-	12,932,570
Reverse repurchase agreements	-	-	-	-	5,449,019	-	5,449,019
Derivative financial instruments	75,248	1,877,755	-	-	-	-	1,953,003
Loans and advances	-	-	-	-	134,650,001	-	134,650,001
Non-trading investments	-	-	25,942,164	2,431,305	-	-	28,373,469
Other assets	-	-	-	-	6,733,506	-	6,733,506
	<u>75,248</u>	<u>2,777,279</u>	<u>25,942,164</u>	<u>2,431,305</u>	<u>184,541,813</u>	-	<u>215,767,809</u>
<b>Financial Liabilities</b>							
Due to banks and financial institutions	-	-	-	-	-	11,585,628	11,585,628
Repurchase agreements	-	-	-	-	-	13,109,155	13,109,155
Commercial Paper	-	-	-	-	-	10,016,916	10,016,916
Derivative financial instruments	653,675	2,181,333	-	-	-	-	2,835,008
Customer accounts and other deposits	-	-	-	-	-	125,782,798	125,782,798
Term borrowings	-	-	-	-	-	18,294,545	18,294,545
Other liabilities <sup>1</sup>	-	-	-	-	-	4,293,545	4,293,545
	<u>653,675</u>	<u>2,181,333</u>	-	-	-	<u>183,082,587</u>	<u>185,917,595</u>

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

## Notes to the consolidated financial statements (continued)

### 6 Financial assets and liabilities (continued)

#### (e) Fair value of financial instruments (continued)

The Group's financial assets and financial liabilities that are classified as loans and receivables and at amortised cost, are categorised under Level 3 in the fair value hierarchy, as there is no active market for such assets and liabilities. The Group considers these to have a fair value approximately equivalent to their net carrying value as the majority of such financial instrument carries variable interest rates and relatively short tenor of maturity.

#### Financial instruments measured at fair value - hierarchy

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

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<b>As at 31 December 2017</b>				
Financial assets held for trading	17,170,765	2,131,636	7,241	19,309,642
Designated at fair value through profit and loss	11,122	-	-	11,122
Available-for-sale financial assets	76,177,486	3,266,871	1,868,126	81,312,483
Derivative financial instruments (Assets)	32,592	11,366,840	-	11,399,432
	<u>93,391,965</u>	<u>16,765,347</u>	<u>1,875,367</u>	<u>112,032,679</u>
Derivative financial instruments (Liabilities)	<u>133,073</u>	<u>14,808,258</u>	-	<u>14,941,331</u>
<b>As at 31 December 2016</b>				
Financial assets held for trading	841,151	50,990	7,383	899,524
Available-for-sale financial assets	22,902,396	1,363,431	1,676,337	25,942,164
Derivative financial instruments (Assets)	674	1,952,329	-	1,953,003
	<u>23,744,221</u>	<u>3,366,750</u>	<u>1,683,720</u>	<u>28,794,691</u>
Derivative financial instruments (Liabilities)	-	2,835,008	-	2,835,008

## Notes to the consolidated financial statements (continued)

### 6 Financial assets and liabilities (continued)

During the year, due to changes in market conditions for certain investment securities, quoted prices in active markets were available for these securities. Therefore, these securities, with a carrying amount of AED 279 million classified as available for sale financial assets and AED 344 million classified as financial assets held for trading were transferred from level 2 to level 1 of the fair value hierarchy.

The valuation techniques and inputs used in these consolidated financial statements are same as those prescribed in the Group as at and for the year ended 31 December 2016. Except for the fair value adjustments mentioned in Note 30.

Level 3 investment primarily include investments in private equity funds, and their valuations are based on the last net asset published by the fund manager.

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

	2017 AED'000	2016 AED'000
Balance as at 1 January	1,683,720	1,663,598
Additions	369,324	52,167
Effect of business combination	13,935	-
Settlements and other adjustments	(191,612)	(32,045)
Balance as at 31 December	<u>1,875,367</u>	<u>1,683,720</u>

### 7 Cash and balances with central banks

	2017 AED'000	2016 AED'000
Cash on hand	1,778,162	447,068
Central Bank of the UAE		
cash reserve deposits	20,732,467	5,892,907
certificates of deposits	14,987,010	13,954,750
other balances	4,505,644	1,226,211
Balances with other central banks		
cash reserve deposits	1,031,581	-
other deposits and balances	95,076,190	3,255,781
	<u>138,111,054</u>	<u>24,776,717</u>

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

## Notes to the consolidated financial statements (continued)

### 8 Investments at fair value through profit or loss

	2017 AED'000	2016 AED'000
Investments in managed funds	55,719	50,990
Investments in equities	503,769	20,976
Debt securities	18,761,276	827,558
	<u>19,320,764</u>	<u>899,524</u>

Equity instruments include investments designated at fair value through profit or loss amounting to AED 11,122 thousand (2016: Nil).

### 9 Due from banks and financial institutions

	2017 AED'000	2016 AED'000
Current, call and notice deposits	4,492,834	2,796,646
Margin deposits	7,491,982	1,767,346
Fixed deposits	1,844,674	8,368,578
	<u>13,829,490</u>	<u>12,932,570</u>

### 10 Reverse repurchase agreements

The Group enters into reverse repurchase agreements in the normal course of business in which the third party transfers financial assets to the Group for short term financing. The carrying amount of financial assets at the reporting date amounted to AED 21,347 million (2016: AED 5,449 million).

No allowances for impairment have been recognised against reverse repurchase agreements during the year (2016: nil).

At 31 December 2017, the fair value of financial assets accepted as collateral that the Group is permitted to sell or re-pledge in the absence of default was AED 20,985 million (2016: AED 3,721 million).

At 31 December 2017, the fair value of financial assets accepted as collateral that have been sold or re-pledged was AED 13,965 million (2016: AED 351.1 million). The Group is obliged to return equivalent securities.

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

### 11 Loans and advances

	2017 AED'000	2016 AED'000
Gross loans and advances	345,089,058	139,685,075
Less: interest suspended	(1,895,059)	(567,014)
Less: allowance for impairment	(12,728,111)	(4,468,060)
Net loans and advances	<u>330,465,888</u>	<u>134,650,001</u>

## Notes to the consolidated financial statements (continued)

### 11 Loans and advances (continued)

	2017 AED'000	2016 AED'000
<b>By counterparty:</b>		
Government sector	5,006,234	268,002
Public sector	54,586,399	14,788,945
Banking sector	21,099,155	4,528,512
Corporate / private sector	193,175,957	82,245,956
Personal / retail sector	71,221,313	37,853,660
	<u>345,089,058</u>	<u>139,685,075</u>

	2017 AED'000	2016 AED'000
<b>By product:</b>		
Overdrafts	15,200,956	8,458,421
Term loans	216,493,775	92,095,571
Trade related loans	22,970,550	7,616,625
Real estate	32,926,373	3,507,711
Mortgage loans	17,907,513	3,410,319
Personal loans	30,246,430	17,617,376
Credit cards	8,035,270	6,789,481
Vehicle financing loans	1,148,140	14,009
Others	160,051	175,562
	<u>345,089,058</u>	<u>139,685,075</u>

The movement in the allowance for impairment during the year is shown below:

	2017 AED'000	2016 AED'000
Beginning of the year	4,468,060	4,419,577
Increase due to acquisition and other adjustment	8,919,060	-
Impact of accounting policy alignment	325,260	-
Reversal of collective provision for the year	(356,854)	110,228
Net charge for specific provision	2,719,151	1,469,078
Amounts written off	(3,346,566)	(1,530,823)
	<u>12,728,111</u>	<u>4,468,060</u>

The Group provides lending against investment in equity securities and funds. The Group is authorised to liquidate these instruments if their coverage falls below the certain agreed threshold. The carrying value of such loans is AED 9,316 million (2016: AED 2,645 million) and the fair value of instruments held as collateral against such loans is AED 19,379 million (2016: AED 4,774 million). During the year, the Group has liquidated insignificant amount of collateral due to fall in the coverage ratio.

## Notes to the consolidated financial statements (continued)

### 11 Loans and advances (continued)

#### Islamic financing

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

	2017 AED'000	2016 AED'000
Ijara	7,051,924	1,008,563
Murabaha	19,500,917	9,823,352
Mudaraba	218,177	154,737
Others	168,561	279,819
<b>Total Islamic financing contracts</b>	<b>26,939,579</b>	<b>11,266,471</b>
Less: allowance for impairment	(453,034)	(62,158)
Less: suspended profit	(32,671)	(8,147)
	<b>26,453,874</b>	<b>11,196,166</b>

### 12 Non-trading Investments

	2017 AED'000	2016 AED'000
Available-for-sale investments	81,312,483	25,942,164
Held-to-maturity investments	7,075,467	2,431,305
Investment in associates and joint venture	69,760	40,030
	<b>88,457,710</b>	<b>28,413,499</b>

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

	2017 AED'000			2016 AED'000		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity investments	450,356	234,364	684,720	140,368	189,383	329,751
Investments in private equity funds	-	1,703,524	1,703,524	-	1,526,984	1,526,984
Debt investments	84,330,388	1,727,335	86,057,723	24,281,152	2,275,612	26,556,764
Funds	11,743	-	11,743	-	-	-
	<b>84,792,487</b>	<b>3,665,223</b>	<b>88,457,710</b>	<b>24,421,520</b>	<b>3,991,979</b>	<b>28,413,499</b>

Debt instruments under repurchase agreements included in non-trading investments at 31 December 2017 amounted to AED 23, 781 million (31 December 2016: AED 12,601 million).

## Notes to the consolidated financial statements (continued)

### 12 Non-trading investments (continued)

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

	Percentage of holding	
	2017	2016
Green Emirates Properties PJSC	40%	40%
Midmak Properties LLC	16%	16%
Emirates Digital Wallet LLC	23%	-
MERCURY	30%	-

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

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

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

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

### 13 Investment Properties

	2017 AED'000	2016 AED'000
Beginning of the year	6,422,502	8,242,190
Additions	553,203	798,856
Business Combination transaction	45,106	-
Disposals / transfers	(273,035)	(2,612,893)
Fair value adjustment	179,916	(5,651)
End of the year	<u>6,927,692</u>	<u>6,422,502</u>

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

	2017 AED'000	2016 AED'000
Rental income derived from investment properties	34,642	150,994
Operating expenses	(29,035)	(55,584)
Net rental income from investment properties	<u>5,607</u>	<u>95,410</u>

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

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



## Notes to the consolidated financial statements *(continued)*

### 13 Investment properties *(continued)*

As at 31 December 2017 and 2016, fair value of the properties is based on the valuations performed by third party valuers and all are level 3 under fair value hierarchy. The valuers are accredited with recognised and relevant professional qualifications and with recent experience in the location and category of investment properties being valued. The fair values have been determined based on varying valuation models depending on the intended use of the investment properties; in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards.

Description of valuation techniques used and key inputs to valuation on investment properties as at 31 December 2017 and 2016:

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

## Notes to the consolidated financial statements (continued)

### 14 Property and equipment

	Land, buildings and alterations AED'000	Computer systems and equipment AED'000	Furniture, equipment, safes and vehicles AED'000	Capital work-in- progress AED'000	Total AED'000
<b>Cost</b>					
At 1 January 2016	1,284,006	491,298	157,607	128,817	2,061,728
Additions	185,387	154,835	44,708	18,330	403,260
Allocations from CWIP	53,913	-	-	(53,913)	-
Disposals, transfers and write offs <sup>1</sup>	(367,961)	(20,546)	(7,057)	(1,480)	(397,044)
<b>At 31 December 2016</b>	<b>1,155,345</b>	<b>625,587</b>	<b>195,258</b>	<b>91,754</b>	<b>2,067,944</b>
Business Combination transaction (note 42)	<b>1,808,495</b>	<b>418,224</b>	<b>232,444</b>	<b>449,371</b>	<b>2,908,534</b>
Additions	<b>40,067</b>	<b>553,037</b>	<b>69,350</b>	<b>285,379</b>	<b>947,833</b>
Allocations from CWIP	<b>51,015</b>	<b>107,907</b>	<b>5,624</b>	<b>(164,546)</b>	<b>-</b>
Disposals, transfers and write offs <sup>1</sup>	<b>(100,307)</b>	<b>(244,234)</b>	<b>(16,804)</b>	<b>(161,635)</b>	<b>(522,980)</b>
<b>At 31 December 2017</b>	<b>2,954,615</b>	<b>1,460,521</b>	<b>485,872</b>	<b>500,323</b>	<b>5,401,331</b>
<b>Accumulated depreciation and impairment losses</b>					
At 1 January 2016	197,840	257,050	121,106	-	575,996
Charge for the year	29,648	72,087	18,125	-	119,860
Disposals, transfers and write offs <sup>1</sup>	(128,895)	(20,505)	(6,767)	-	(156,167)
<b>At 31 December 2016</b>	<b>98,593</b>	<b>308,632</b>	<b>132,464</b>	<b>-</b>	<b>539,689</b>
Business Combination transaction (note 42)	<b>477,026</b>	<b>405,027</b>	<b>185,174</b>	<b>-</b>	<b>1,067,227</b>
Charge for the year	<b>73,318</b>	<b>201,851</b>	<b>36,250</b>	<b>-</b>	<b>311,419</b>
Disposals, transfers and write offs <sup>1</sup>	<b>(2,395)</b>	<b>(45,741)</b>	<b>(4,369)</b>	<b>-</b>	<b>(52,505)</b>
<b>At 31 December 2017</b>	<b>646,542</b>	<b>869,769</b>	<b>349,519</b>	<b>-</b>	<b>1,865,830</b>
<b>Carrying amounts</b>					
At 31 December 2016	1,056,752	316,955	62,794	91,754	1,528,255
<b>At 31 December 2017</b>	<b>2,308,073</b>	<b>590,752</b>	<b>136,353</b>	<b>500,323</b>	<b>3,535,501</b>

<sup>1</sup> adjusted for foreign exchange translation impact

## Notes to the consolidated financial statements (continued)

### 15 Intangibles

	2017 AED'000	2016 AED'000
Goodwill	17,317,445	36,868
Customer relationship	1,813,517	170,000
Core deposits	976,038	10,000
Brand	22,000	22,000
	<u>20,129,000</u>	<u>238,868</u>
Amortisation	(227,626)	(68,470)
	<u>19,901,374</u>	<u>170,398</u>

### 16 Other assets

	2017 AED'000	2016 AED'000
Interest receivable	7,195,037	1,385,187
Acceptances	5,463,959	3,906,933
Sundry debtors and other receivables	2,976,835	1,492,333
Deferred tax asset	36,585	-
	<u>15,672,416</u>	<u>6,784,453</u>

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

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

### 17 Due to banks and financial institutions

	2017 AED'000	2016 AED'000
<b><i>Banks and financial institutions</i></b>		
Current, call and notice deposits	3,445,932	806,065
Margin	1,131,317	11,394
Fixed deposits	12,303,765	10,768,169
	<u>16,881,014</u>	<u>11,585,628</u>
<b><i>Central banks</i></b>		
Current and call deposits	77,417	-
Fixed and certificate of deposits	13,617,905	-
	<u>13,695,322</u>	<u>-</u>
	<u>30,576,336</u>	<u>11,585,628</u>

Due to banks and financial institutions are denominated in various currencies and carry a rate of interest in the range of -0.6% to 5.15% (2016: -3.25% to 3.08%).

## Notes to the consolidated financial statements (continued)

### 18 Repurchase agreements

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

The carrying value that is also the fair value of financial assets collateralised at the reporting date amounted to AED 23,784 million (2016: AED 12,601 million) and their associated financial liabilities amounted to AED 37,674 million (2016: AED 13,109 million). The net difference between the fair value of the financial assets collateralised and the carrying value of the repurchase agreement is a shortage AED 13,891 million (2016: shortage AED 508 million). The shortage is covered by re-pledging financial assets received as collateral against reverse repurchase agreements or through security borrowing arrangement from custodian.

### 19 Commercial paper

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

The notes outstanding as at the end of the reporting date amounted to AED 24,124,097 thousand (2016: AED 10,016,916 thousand) and have maturity period of less than 12 months.

The Group has not had any defaults of principal, interests, or other breaches with respect to its Commercial Paper during 2017.

### 20 Customer accounts and other deposits

	2017 AED'000	2016 AED'000
<b>By account:</b>		
Current accounts	102,711,909	30,700,398
Savings accounts	13,323,504	2,478,958
Margin accounts	5,744,664	1,226,395
Notice and time deposits	239,389,966	89,381,646
	<u>361,170,043</u>	<u>123,787,397</u>
Certificates of deposit	34,673,621	1,995,401
	<u>395,843,664</u>	<u>125,782,798</u>
	<u><u>395,843,664</u></u>	<u><u>125,782,798</u></u>
<b>By counterparty:</b>		
Government sector	78,639,783	7,513,728
Public sector	74,303,858	29,938,237
Corporate / private sector	135,281,622	65,185,805
Personal / retail sector	72,944,780	21,149,627
	<u>361,170,043</u>	<u>123,787,397</u>
Certificates of deposit	34,673,621	1,995,401
	<u>395,843,664</u>	<u>125,782,798</u>
	<u><u>395,843,664</u></u>	<u><u>125,782,798</u></u>

## Notes to the consolidated financial statements (continued)

### 20 Customer accounts and other deposits (continued)

	2017 AED'000	2016 AED'000
<i>By location:</i>		
UAE	253,909,510	89,063,630
Europe	45,941,151	2,795,887
Arab countries	28,292,139	5,889,136
Americas	22,494,992	10,843,200
Asia	8,711,746	14,725,736
Others	1,820,505	469,808
	<u>361,170,043</u>	<u>123,787,397</u>
Certificates of deposit	34,673,621	1,995,401
	<u>395,843,664</u>	<u>125,782,798</u>

#### Islamic customers' deposits

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

	2017 AED'000	2016 AED'000
Wakala deposits	781,321	502,672
Mudaraba deposits	623,727	1,177,785
	<u>1,405,048</u>	<u>1,680,457</u>

### 21 Term borrowings

	2017 AED'000	2016 AED'000
Convertible notes	1,830,006	-
Other term notes	40,315,712	18,294,545
	<u>42,145,718</u>	<u>18,294,545</u>

Convertible notes include USD 500 million notes that mature in March 2018 and carry a fixed coupon that is paid semi-annually in arrears. The value of the conversion option at inception was AED 108,265 thousand and as such has been classified as a part of equity under convertible note – equity component reserve.

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

## Notes to the consolidated financial statements (continued)

### 21 Term Borrowings (continued)

	2017 AED'000	2016 AED'000
<b><u>Fixed rate</u></b>		
AED	96,830	-
AUD	-	79,513
CHF	565,454	-
CNH	62,015	137,003
EUR	-	96,563
USD	-	3,107,358
<b><u>Floating rate</u></b>		
USD	2,227,724	9,939,138
EUR	-	231,752
	<b><u>2,952,023</u></b>	<b><u>13,591,327</u></b>

The Group has hedged the interest rate and foreign currency exposure on term borrowings. The nominal value hedged are AED 27.84 billion (2016: AED 7.22 billion) and the risks being hedged have a net negative fair value of AED 301.59 million (2016: net positive fair value of AED 61.7 million). The Group has not had any defaults of principal, interests, or other breaches with respect to its term borrowings during 2017 and 2016.

## Notes to the consolidated financial statements (continued)

### 21 Term Borrowings (continued)

Currency	Interest	2017					Total AED'000	2016					Total AED'000
		Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 Years AED'000		Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 Years AED'000	
AED	Equity linked	-	96,830	-	-	-	96,830	-	-	-	-	-	-
AED	3 month EIBOR + 80 bps to 156.5 bps p.a.	-	-	49,936	-	-	49,936	-	-	49,853	-	-	49,853
AUD	Fixed rate of 3.17% to 5.00% p.a.	861,918	-	1,983,239	84,717	-	2,929,874	-	-	656,344	-	-	656,344
AUD	3 month AUD BBSW + 110 bps to 142 bps p.a.	-	-	57,268	71,812	-	129,080	-	-	52,517	-	-	52,517
CHF	Fixed rate of 0.16% to 0.625% p.a.	-	-	-	754,538	556,742	1,311,280	-	-	-	735,396	-	735,396
CNH	Fixed rate of 4.5% to 5% p.a.	73,324	355,185	572,242	-	-	1,000,751	-	-	-	-	-	-
CNY	Fixed rate of 4.50% to 5.00% p.a.	-	-	-	-	-	-	-	205,060	418,294	-	-	623,354
EUR	Fixed rate of 0.516% to 3.00% p.a.	-	-	111,017	-	580,853	691,870	-	-	-	-	421,379	421,379
EUR	3 month EURIBOR + (33 bps to 36 bps) p.a.	66,128	-	263,084	-	-	329,212	-	58,136	-	-	-	58,136
HKD	Fixed rate of 2.37% to 4.45% p.a.	-	-	303,202	238,052	567,182	1,108,436	-	-	149,022	-	376,285	525,307
JPY	Fixed rate of 0.86% to 2.60% p.a.	-	-	325,853	-	347,592	673,445	-	-	315,826	-	-	315,826
MXN	Fixed rate of 0.50% p.a.	-	-	-	-	1,960	1,960	-	-	-	-	-	-
MYR	Fixed rate of 4.90% p.a.	-	-	453,894	-	-	453,894	-	-	-	-	-	-
SGD	Fixed rate of 2.10% p.a.	-	30,249	-	-	-	30,249	-	28,138	-	-	-	28,138
USD	Fixed rate of till 5.10% p.a.	1,830,007	-	10,284,027	2,134,531	8,265,264	22,513,829	1,836,500	2,387,450	3,477,479	-	453,937	8,155,366
USD	1-3 Month LIBOR + (5 bps to 185 bps) p.a.	367,098	2,221,999	7,992,009	243,966	-	10,825,072	3,673,000	-	2,853,042	146,887	-	6,672,929
		<b>3,198,475</b>	<b>2,704,263</b>	<b>22,395,771</b>	<b>3,527,616</b>	<b>10,319,593</b>	<b>42,145,718</b>	<b>5,509,500</b>	<b>2,678,784</b>	<b>7,972,377</b>	<b>882,283</b>	<b>1,251,601</b>	<b>18,294,545</b>

## Notes to the consolidated financial statements (continued)

### 21 Term borrowings (continued)

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

	2017 AED'000	2016 AED'000
Beginning of the year	18,294,545	19,873,195
Increase due to acquisition	31,308,591	-
New issuances	3,135,955	2,519,939
Redemptions	(11,433,020)	(3,912,284)
Exchange and other adjustments	839,647	(186,305)
End of the year	<u>42,145,718</u>	<u>18,294,545</u>

### 22 Subordinated notes

	2017 AED'000	2016 AED'000
10 December 2012 issue (maturity date: 9 December 2027)	<u>420,381</u>	<u>-</u>

The Group has hedged the interest rate and foreign currency exposure on the subordinated notes. The Group has not had any defaults of principal, interests, or other breaches with respect to its subordinated notes during the year ended 31 December 2017.

### 23 Other liabilities

	2017 AED'000	2016 AED'000
Interest payable	6,108,042	674,520
Acceptances - net of discounting (note 16)	2,506,422	1,900,952
Provision employees' end of service benefits	512,346	75,934
Accounts payable, sundry creditors and other liabilities	11,745,645	2,047,513
Overseas income tax	160,884	-
	<u>21,033,339</u>	<u>4,698,919</u>

#### Employees end of service benefits

##### Defined benefit obligations

The Group provides for end of service benefits for its eligible employees. An actuarial valuation has been carried out as at December 31, 2017 to ascertain present value of the defined benefit obligation. A registered actuary in the UAE was appointed to evaluate the same. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

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

Discount rate	<u>3.39 % per annum</u>
Salary increase rate	<u>1.67 % per annum</u>



## Notes to the consolidated financial statements (continued)

### 23 Other liabilities (continued)

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

A shift in the in the discount rate assumption by +/- 50 basis points would impact the liability by AED 4,508 thousand and AED 15,748 thousand respectively. Similarly, a shift in the salary increment assumption by +/- 50 basis points would impact the liability by AED 15,877 thousand and AED 4,723 thousand respectively.

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

	2017 AED'000	2016 AED'000
Balance at 1 January	75,934	72,801
Increase due to acquisition	455,300	
Net charge during the year	47,920	19,882
Paid during the year	(69,761)	(16,749)
Other adjustments	2,953	-
Balance at 31 December	<u>512,346</u>	<u>75,934</u>

#### Defined contribution plan

The Group pays contributions for its eligible employees which are treated as defined contribution plans. The charge for the year in respect of these contributions is AED 91,472 thousand (2016: AED 21,970 thousand). As at the reporting date, pension payable of AED 16,576 thousand has been classified under other liabilities.

#### Overseas income tax

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

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

	2017 AED'000	2016 AED'000
At 1 January	42,680	18,896
Increase due to acquisition	171,411	--
Charge for the year	224,989	41,846
Overseas income tax paid, net of recoveries	(278,196)	(18,062)
At 31 December	<u>160,884</u>	<u>42,680</u>

### 24 Capital and reserves

#### Share Capital

The Merger between NBAD and FGB was effected by a capital issuance of 5,643 million shares of AED 1 by NBAD to the shareholders of FGB, in a share swap transaction at the exchange rate of 1.254 shares of NBAD for each share of FGB. Pursuant to the transaction, the shares of FGB were delisted from Abu Dhabi Stock Exchange and replaced with the new issued share capital. The newly issued share capital added to the outstanding shares of NBAD already in issue (being the share capital of the surviving legal entity at the time of merger) to constitute the share capital of the merged entity (First Abu Dhabi Bank).

## Notes to the consolidated financial statements (continued)

### 24 Capital and reserves (continued)

The table below represents the effect of the merger transaction on share capital of the Group as of the date of the merger.

	Units in (AED'000)	%
Outstanding shares of FGB	4,500,000	
Exchange ratio	1.254	
	<hr/>	
Number of shares issued by NBAD to FGB	5,643,000	52.01
Outstanding shares of NBAD (Net of treasury shares)	5,207,713	47.99
	<hr/>	<hr/>
<b>Total shares of FAB post combination (Net of treasury shares)</b>	<b>10,850,713</b>	<b>100.00</b>
Treasury shares	46,832	
	<hr/>	
<b>Total shares of FAB post combination</b>	<b>10,897,545</b>	
	<hr/> <hr/>	
<b>Effect of business combination transaction on share capital</b>	<b>6,397,545</b>	
	<hr/> <hr/>	

The general reserve is available for distribution to the shareholders at the recommendation of the Board of Directors. The following table illustrates the impact of business combination on share premium:

	AED'000
FGB Capital pre combination	4,500,000
Total consideration	53,572,167
	<hr/>
Capital post combination	58,072,167
Adjustment to legal reserve	5,775,564
	<hr/>
Total paid-in capital	63,847,731
	<hr/> <hr/>

The total paid-in capital comprises:

	AED'000
Share capital of the Bank after merger	10,897,545
Treasury shares on the date of merger	(46,832)
Share premium	52,997,018
	<hr/>
Total paid-in capital	63,847,731
	<hr/> <hr/>

### Statutory and special reserves

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

## Notes to the consolidated financial statements (continued)

### 24 Capital and reserves (continued)

#### Dividends

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

	2017 AED'000	2016 AED'000
Dividend on ordinary shares paid during the year	<u>4,489,524</u>	<u>4,423,230</u>

#### Other reserves

Other reserves include the following:

##### (i) General reserve

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

##### (ii) Fair value reserve

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

	2017 AED'000	2016 AED'000
<i>Revaluation reserve – available-for-sale investments</i>		
At 1 January	413,171	410,638
Net unrealised gains during the year	635,883	319,936
Net cumulative realised gains recognised in the consolidated statement of profit or loss during the year	<u>(371,559)</u>	<u>(317,403)</u>
At 31 December	<u>677,495</u>	<u>413,171</u>
<i>Hedging reserve – cash flow hedge</i>		
At 1 January	(381)	(19,791)
Changes in fair value	<u>(51,904)</u>	<u>19,410</u>
At 31 December	<u>(52,285)</u>	<u>(381)</u>
Total at 31 December	<u>625,210</u>	<u>412,790</u>

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

##### (iii) Revaluation reserve

The revaluation reserve of AED 280,601 thousand (2016: AED 280,601 thousand) is related to land included under property and equipment

## Notes to the consolidated financial statements (continued)

### 24 Capital and reserves (continued)

#### Other reserves (continued)

#### (iv) Foreign currency translation reserve

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

### 25 Tier 1 capital notes

		2017 AED'000	2016 AED'000
Government of Abu Dhabi Notes (6 month EIBOR plus 2.3 percent per annum)	AED	8,000,000	4,000,000
USD 750 million Notes (5 year mid swap rate plus 3.35 percent per annum)	USD	2,754,750	-
		<u>10,754,750</u>	<u>4,000,000</u>

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

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

During the year, coupon payment election was made by the Group in the amount of AED 381,089 thousand (31 December 2016: AED 138,256 thousand).

### 26 Share option scheme

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

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

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

Post-merger and up to the date of statement of financial position, 4,399 thousand options (31 December 2016: None) had been exercised by the option holders resulting in an increase in the total share capital by AED 4,399 thousand (31 December 2016: Nil) and share premium by AED 29,626 thousand (31 December 2016: Nil).

## Notes to the consolidated financial statements (continued)

### 27 Interest income

	2017 AED'000	2016 AED'000
<i>Interest from:</i>		
Central banks	339,797	69,006
Banks and financial institutions	452,859	160,853
Reverse repurchase agreements	261,919	37,587
Investments at fair value through profit or loss	352,009	64,152
Non-trading investments	1,738,032	615,568
Loans and advances	13,187,171	7,566,394
	<u>16,331,787</u>	<u>8,513,560</u>

### 28 Interest expense

	2017 AED'000	2016 AED'000
<i>Interest to:</i>		
Banks and financial institutions	583,820	253,341
Repurchase agreements	373,651	111,185
Commercial paper	163,419	30,784
Customer accounts and other deposits	2,648,424	1,278,398
Term borrowings	1,150,740	486,223
Subordinated notes	15,540	-
	<u>4,935,594</u>	<u>2,159,931</u>

### 29 Net fee and commission income

	2017 AED'000	2016 AED'000
<b>Fee and commission income</b>		
Trade finance	855,577	515,073
Collection services	34,756	8,523
Brokerage income	32,806	7,911
Asset management and investment services	82,837	2,214
Investments, derivatives and risk participation	4,516	-
Retail and corporate lending	1,012,525	682,137
Cards and e-services	1,595,675	687,933
Accounts related services	84,023	21,616
Commission on transfers	96,318	27,477
Others	227,028	158,213
Total fee and commission income	<u>4,026,061</u>	<u>2,111,097</u>
<b>Fee and commission expense</b>		
Brokerage commission	28,224	-
Handling charges	22,740	-
Credit card charges	815,540	140,128
Retail and corporate lending	228,016	167,974
Others	33,686	-
Total fee and commission expense	<u>1,128,206</u>	<u>308,102</u>
<b>Net fee and commission income</b>	<u>2,897,854</u>	<u>1,802,995</u>

Asset management and investment service fees include fees earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

## Notes to the consolidated financial statements (continued)

### 30 Net foreign exchange gain

	2017 AED'000	2016 AED'000
Trading and retranslation gain on foreign exchange and related derivatives <sup>1</sup>	640,543	198,476
Dealings with customers	287,645	24,180
	<u>928,188</u>	<u>222,656</u>

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

Includes negative interest income of AED 213 million arising from placement with ECB.

### 31 Net gain on investments and derivatives

	2017 AED'000	2016 AED'000
Net realised and unrealised gain on investments at fair value through profit or loss and derivatives	294,021	80,217
Net gain from sale of non-trading Investments	371,559	317,403
Dividend income	20,551	5,115
	<u>686,131</u>	<u>402,735</u>

### 32 Other Operating Income

	2017 AED'000	2016 AED'000
Investment property income	215,631	550,682
Leasing related income	95,824	148,645
Other income	160,635	79,501
	<u>472,090</u>	<u>778,828</u>

### 33 General, administration and other operating expenses

	2017 AED'000	2016 AED'000
Staff costs	2,782,316	1,282,358
Other general and administration expenses	1,611,022	549,781
Depreciation (note14)	311,418	112,293
Intangible amortisation (note 15)	159,156	21,118
Sponsorships and donations	37,584	10,633
	<u>4,901,496</u>	<u>1,976,183</u>

## Notes to the consolidated financial statements (continued)

### 34 Net impairment charge

	2017 AED'000	2016 AED'000
Collective provision for loans and advances	(356,854)	110,228
Specific provision for loans and advances	2,719,151	1,469,078
Recoveries	(297,777)	(127,144)
Write-off of impaired financial assets	21,354	-
Provisions for investment and others	843	20,852
	<u>2,086,717</u>	<u>1,473,014</u>

### 35 Overseas income tax expense

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

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

	2017 AED'000	2016 AED'000
Charge for the year	<u>224,989</u>	<u>41,846</u>

### 36 Cash and cash equivalents

	2017 AED'000	2016 AED'000
Cash and balances with Central Banks	138,111,054	24,776,717
Due from banks and financial institutions	13,829,490	12,932,570
	<u>151,940,544</u>	<u>37,709,287</u>
Less: Balances with Central Banks maturing after three months of placement	(10,186,771)	(12,280,365)
Less: Due from banks and financial institutions maturing after three months of placement	(7,147,856)	(1,849,395)
	<u>134,605,917</u>	<u>23,579,527</u>

## Notes to the consolidated financial statements (continued)

### 37 Commitments and contingencies

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

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

	2017 AED'000	2016 AED'000
Letter of credit	48,863,532	14,769,639
Letters of guarantees	102,810,624	45,385,877
Financial guarantees	763,441	-
<b>Trade contingencies</b>	<b>152,437,597</b>	<b>60,155,516</b>
Undrawn commitment to extend credit	48,555,452	19,460,113
Commitments for future capital expenditure	347,537	492,827
Commitments for future private equity investments	985,495	1,049,799
Commitments for operating lease payments	169,950	-
	<b>50,058,434</b>	<b>21,002,739</b>
<b>Total commitments and contingencies</b>	<b>202,496,031</b>	<b>81,158,255</b>

Credit risk characteristics of these unfunded facilities closely resemble the funded facilities as described in note 4 are neither past due nor impaired.

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

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

Commitments for operating lease payments are payable as follows:

	2017 AED'000	2016 AED'000
Less than one year	94,707	-
Between one and five year	61,662	-
More than five year	13,581	-
<b>Total commitments</b>	<b>169,950</b>	<b>-</b>

Financial guarantee contracts includes credit default agreements entered with banks and financial institutions amounting to AED 165 million (2016: nil) which are primarily denominated in US Dollars.



## Notes to the consolidated financial statements (continued)

### 37 Commitments and contingencies (continued)

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

Concentration by location:

	Undrawn loan Commitments		Trade contingencies	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
UAE	20,758,149	8,653,096	105,597,814	45,221,453
Europe	10,837,450	3,689,740	22,886,522	2,998,876
Arab countries	4,379,838	1,692,840	8,366,824	2,234,464
Americas	4,070,740	-	5,843,811	46,764
Asia	3,035,226	1,379,328	8,954,804	5,497,031
Others	5,474,049	4,045,109	787,822	4,156,928
	<b>48,555,452</b>	<b>19,460,113</b>	<b>152,437,597</b>	<b>60,155,516</b>

### 38 Derivative financial instruments

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

#### Forwards and futures

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

#### Swaps

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

## Notes to the consolidated financial statements *(continued)*

### 38 Derivative financial instruments *(continued)*

#### **Options**

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

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

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

## Notes to the consolidated financial statements (continued)

### 38 Derivative financial instruments (continued)

31 December 2017

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

## Notes to the consolidated financial statements (continued)

### 38 Derivative financial instruments (continued)

31 December 2016

	Positive market value	Negative market value	Notional amount	Notional amounts by term to maturity				
				Less than three months	From three months to one year	From one year to three years	From three years to five years	Over five years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<b>Held for trading:</b>								
<i>Interest rate derivatives</i>								
Swaps	588,981	517,092	57,769,253	1,301,604	8,291,452	11,967,781	17,903,968	18,304,448
Forwards & Futures	-	-	459,125	459,125	-	-	-	-
Options & Swaptions	132,927	147,190	5,963,789	229,272	326,401	988,894	3,564,419	854,803
<i>Foreign exchange derivatives</i>								
Forwards	565,366	810,433	58,718,836	29,439,509	24,070,588	2,603,410	2,267,480	337,849
Options	378,763	495,553	18,250,870	2,864,462	7,398,289	7,178,219	533,570	276,330
<i>Other derivatives contracts</i>	211,718	211,065	4,571,588	1,667,668	846,311	1,576,115	481,494	-
	<u>1,877,755</u>	<u>2,181,333</u>	<u>145,733,461</u>	<u>35,961,640</u>	<u>40,933,041</u>	<u>24,314,419</u>	<u>24,750,931</u>	<u>19,773,430</u>
<b>Held as fair value hedges:</b>								
<i>Interest rate derivatives</i>								
Swaps	75,248	653,392	13,350,546	609,795	202,379	2,465,924	4,057,275	6,015,173
Swaptions	-	283	65,259	-	-	65,259	-	-
	<u>75,248</u>	<u>653,675</u>	<u>13,415,805</u>	<u>609,795</u>	<u>202,379</u>	<u>2,531,183</u>	<u>4,057,275</u>	<u>6,015,173</u>
<b>Held as cash flow hedges</b>								
<i>Interest rate derivatives</i>								
Swaps	-	-	-	-	-	-	-	-
Forwards	-	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<u>1,953,003</u>	<u>2,835,008</u>	<u>159,149,266</u>	<u>36,571,435</u>	<u>41,135,420</u>	<u>26,845,602</u>	<u>28,808,206</u>	<u>25,788,603</u>

## Notes to the consolidated financial statements *(continued)*

### 38 Derivative financial instruments *(continued)*

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

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

#### **Derivative related credit risk:**

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

#### **Derivatives held for trading**

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

#### **Derivatives held as fair value hedge**

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

#### **Derivatives held as cash flow hedge**

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

## Notes to the consolidated financial statements *(continued)*

### 39 Segmental information

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

#### Business segments

##### Corporate & Investment Banking ("CIB")

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

##### Personal Banking ("PB")

Business targets retail, affluent and high net worth customers. Product offering ranges from every day banking products such as current accounts, deposits, credit cards and loans to sophisticated investments solutions and business banking products and services. Personal Banking Group is structured on the basis of the differing needs of the targeted broad customer base covering Retail, Affluent, Private banking and SME customer segments. The business furnishes variety of distribution and sales channels, including mobile and internet banking, branches and direct sales agents.

##### Subsidiaries

Business includes diversified business model supported by complementary offerings provided across real estate and property management, brokerage, conventional and Islamic consumer finance. This business covers subsidiaries partially or fully owned by the Group, it includes Dubai first, Aseel, ADNIF, FGP, ADNP, Mismak, NBAD Securities and First Gulf Libyan Bank.

##### Head office

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

##### Geographic segments

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

- **MEA**  
FAB network in the MEA region is operated through its presence in Oman, Bahrain, Qatar, Egypt, Sudan, Kuwait, Lebanon, Jordan and Libya.
- **APAC**  
FAB's business in the Asia region is run through its presence in Singapore, Hong Kong, Korea, China, Malaysia and India.
- **E&A**  
FAB European and America coverage is carried out via its operational presence in United States of America, Brazil, United Kingdom, France and Switzerland.

## Notes to the consolidated financial statements (continued)

### 39 Segmental information (continued)

	Business Segment					Geographic Segment				
	Corporate and Investment Banking AED'000	Personal Banking AED'000	Subsidiaries AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Middle East And Africa AED'000	Europe and Americas AED'000	Asia - Pacific AED'000	Total AED'000
<i>For the year ended 31 December 2017</i>										
Net Interest income	5,156,214	4,330,597	514,366	1,395,016	11,396,193	10,097,926	469,649	574,330	254,288	11,396,193
Net non-interest income	2,754,503	1,492,222	721,569	15,970	4,984,264	4,353,583	298,250	191,805	140,626	4,984,264
Operating income	<u>7,910,717</u>	<u>5,822,819</u>	<u>1,235,935</u>	<u>1,410,986</u>	<u>16,380,457</u>	<u>14,451,509</u>	<u>767,899</u>	<u>766,135</u>	<u>394,914</u>	<u>16,380,457</u>
General administration and other operating expenses	1,556,779	2,060,853	488,210	795,654	4,901,496	4,229,458	270,110	252,289	149,639	4,901,496
Net impairment loss	<u>296,647</u>	<u>1,584,569</u>	<u>503,000</u>	<u>(297,499)</u>	<u>2,086,717</u>	<u>1,985,085</u>	<u>83,435</u>	<u>7,486</u>	<u>10,711</u>	<u>2,086,717</u>
Profit before tax	<u>6,057,291</u>	<u>2,177,397</u>	<u>244,725</u>	<u>912,831</u>	<u>9,392,244</u>	<u>8,236,966</u>	<u>414,354</u>	<u>506,360</u>	<u>234,564</u>	<u>9,392,244</u>
Overseas income tax expense	<u>135,963</u>	<u>65,523</u>	<u>21,973</u>	<u>1,530</u>	<u>224,989</u>	<u>3,864</u>	<u>91,605</u>	<u>103,310</u>	<u>26,210</u>	<u>224,989</u>
Net profit for the year	<u>5,921,328</u>	<u>2,111,874</u>	<u>222,752</u>	<u>911,301</u>	<u>9,167,255</u>	<u>8,233,102</u>	<u>322,749</u>	<u>403,050</u>	<u>208,354</u>	<u>9,167,255</u>
<i>As at 31 December 2017</i>										
Segment total assets	<u>450,430,907</u>	<u>97,980,652</u>	<u>21,782,636</u>	<u>126,431,598</u>	<u>696,625,793</u>	<u>544,299,763</u>	<u>21,240,671</u>	<u>129,441,066</u>	<u>23,406,626</u>	<u>718,388,126</u>
Inter segment balances					(27,657,498)					(49,419,831)
Total assets					<u>668,968,295</u>					<u>668,968,295</u>
Segment total liabilities	<u>438,220,833</u>	<u>95,001,870</u>	<u>11,430,776</u>	<u>49,762,901</u>	<u>594,416,380</u>	<u>456,642,109</u>	<u>13,808,673</u>	<u>126,033,661</u>	<u>19,694,270</u>	<u>616,178,713</u>
Inter segment balances					(27,657,498)					(49,419,831)
Total liabilities					<u>566,758,882</u>					<u>566,758,882</u>

## Notes to the consolidated financial statements (continued)

### 39 Segmental information (continued)

	Business Segment					Geographic Segment				
	Corporate and Investment Banking AED'000	Personal Banking AED'000	Subsidiaries AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Middle East And Africa AED'000	Europe and Americas AED'000	Asia - Pacific AED'000	Total AED'000
<b>For the year ended 31 December 2016</b>										
Net Interest income	3,073,078	2,533,174	278,628	468,749	6,353,629	6,043,498	89,015	22,961	198,155	6,353,629
Net non-interest income	1,533,284	601,370	1,073,199	(639)	3,207,214	2,886,964	170,607	8,386	141,257	3,207,214
Operating income	<u>4,606,362</u>	<u>3,134,544</u>	<u>1,351,827</u>	<u>468,110</u>	<u>9,560,843</u>	<u>8,930,462</u>	<u>259,622</u>	<u>31,347</u>	<u>339,412</u>	<u>9,560,843</u>
General administration and other operating expenses	385,472	515,602	248,936	826,174	1,976,184	1,873,813	38,601	2,803	60,967	1,976,184
Net impairment loss	<u>162,163</u>	<u>955,674</u>	<u>336,736</u>	<u>18,441</u>	<u>1,473,014</u>	<u>1,741,667</u>	<u>59,914</u>	<u>5,896</u>	<u>(334,463)</u>	<u>1,473,014</u>
Profit before tax	<u>4,058,727</u>	<u>1,663,268</u>	<u>766,155</u>	<u>(376,504)</u>	<u>6,111,646</u>	<u>5,314,982</u>	<u>161,107</u>	<u>22,648</u>	<u>612,909</u>	<u>6,111,646</u>
Overseas income tax expense	<u>15,041</u>	<u>-</u>	<u>26,805</u>	<u>-</u>	<u>41,846</u>	<u>15,041</u>	<u>-</u>	<u>26,805</u>	<u>-</u>	<u>41,846</u>
Net profit for the year	<u>4,043,686</u>	<u>1,663,268</u>	<u>739,350</u>	<u>(376,504)</u>	<u>6,069,800</u>	<u>5,299,941</u>	<u>161,107</u>	<u>(4,157)</u>	<u>612,909</u>	<u>6,069,800</u>
<b>As at 31 December 2016</b>										
Segment total assets	<u>129,074,064</u>	<u>33,887,920</u>	<u>14,133,347</u>	<u>74,231,790</u>	<u>251,327,121</u>	<u>220,535,977</u>	<u>8,522,667</u>	<u>1,049,293</u>	<u>16,328,544</u>	<u>246,436,481</u>
Inter segment balances					(27,347,180)					(22,456,540)
Total assets					<u>223,979,941</u>					<u>223,979,941</u>
Segment total liabilities	<u>124,413,036</u>	<u>32,627,745</u>	<u>5,809,079</u>	<u>50,820,289</u>	<u>213,670,149</u>	<u>191,341,995</u>	<u>4,776,987</u>	<u>743,783</u>	<u>11,916,744</u>	<u>208,779,509</u>
Inter segment balances					(27,347,180)					(22,456,540)
Total liabilities					<u>186,322,969</u>					<u>186,322,969</u>



## Notes to the consolidated financial statements (continued)

### 40 Earnings per share

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

	2017	2016
<b>Basic earnings per share:</b>		
Net profit for the year (AED'000)	9,132,648	6,026,226
Less: payment on Tier 1 capital notes (AED'000)	<u>(381,089)</u>	<u>(138,256)</u>
Net profit after payment of Tier 1 capital notes (AED'000)	<u>8,751,559</u>	<u>5,887,970</u>
<b>Weighted average number of ordinary shares:</b>		
Number of shares issued / deemed to be outstanding from the beginning of the period ('000)	5,643,000	5,643,000
Weighted average number of shares deemed to be issued on reverse acquisition ('000)	3,923,620	-
Weighted average number of shares exercised under the share options scheme ('000)	<u>3,473</u>	<u>-</u>
Weighted average number of ordinary shares ('000)	<u>9,570,093</u>	<u>5,643,000</u>
<b>Basic earnings per share (AED)</b>	<u>0.91</u>	<u>1.04</u>
<b>Diluted earnings per share:</b>		
Net profit after payment of Tier 1 capital notes (AED'000)	8,751,559	5,887,970
Add: Interest on convertible note (AED'000)	<u>25,683</u>	<u>-</u>
Net profit for the year for calculating diluted earnings per share (AED'000)	<u>8,777,242</u>	<u>5,887,970</u>
Weighted average number of ordinary shares ('000)	9,570,093	5,643,000
Effect of dilutive potential ordinary shares issued ('000)	97,861	-
Weighted average number of dilutive shares under share options scheme ('000)	<u>5,125</u>	<u>-</u>
Weighted average number of ordinary shares in issue for diluted earnings per share ('000)	<u>9,673,079</u>	<u>5,643,000</u>
<b>Diluted earnings per share (AED)</b>	<u>0.91</u>	<u>1.04</u>

## Notes to the consolidated financial statements (continued)

### 41 Related parties

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

	2017			2016
	Senior management and related entities AED'000	Major shareholders AED'000	Total AED'000	Total AED'000

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

Financial assets	<u>1,481,279</u>	<u>11,394,596</u>	<u>12,875,875</u>	3,740,172
Financial liabilities	<u>8,116,999</u>	<u>8,547,073</u>	<u>16,664,072</u>	7,632,844
Contingent liabilities	<u>1,558,212</u>	<u>11,834,686</u>	<u>13,392,898</u>	1,828,369

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

	2017			2016
	Interest income	<u>67,968</u>	<u>226,179</u>	<u>294,147</u>
Interest expense	<u>132,511</u>	<u>2,035</u>	<u>134,546</u>	120,408

No allowances for impairment have been recognised against loans and advances extended to related parties or contingent liabilities issued in favour of related parties during the year (2016: AED nil).

### 42 Business Combination

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

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

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

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

## Notes to the consolidated financial statements (continued)

### 42 Business Combination (continued)

#### a. Purchase consideration

The purchase consideration is determined to be AED 53,572 million, calculated on the basis of FGB's closing share price of AED12.90 per share on Abu Dhabi Securities Exchange on 30 March 2017.

The consideration is computed as follows:

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

#### b. Integration related costs

The Group incurred Integration-related costs of AED 463 million relating to consultant and external legal fees and due diligence costs. These costs have been included in 'General, administrative and other operating expenses' in the consolidated statement of profit or loss.

#### c. Valuation approach and methodologies :

##### Customer relationship

- The income approach has been used in estimating the fair value of NBAD's customer relationships as an intangible asset as at the Transaction Date. The income approach values the customer relationship as the present value of the future earnings that it is expected to generate over its remaining useful economic life.
- Under the income approach, the Multi-period excess earnings method ("MEEM") has been utilized which is a commonly accepted method for valuing customer relationships.
- MEEM is a specific application of the discounted cash flow method where the value of an intangible asset is taken as the present value of the incremental (after-tax) cash flows attributable only to the subject intangible asset after deducting contributory asset charges ("CAC").
- The principle behind CAC is that an intangible asset "rents" or "leases" from a hypothetical third party all the assets it requires to produce the cash flows resulting from its development, that each project rents only those assets it needs (including element of goodwill) and not the ones that it does not need, and that each project pays the owner of the assets a fair return on (and of, when appropriate) the fair value of the rented assets.
- Thus, any net cash flows remaining after the CAC are attributable to the subject intangible asset being valued. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value.

##### Core deposits

- The income approach to valuation has been used in estimating the fair value of the core deposits as an intangible asset as at the Transaction Date. The income approach values the core deposits as the present value of the future savings that are expected to be generated over its remaining useful economic life. Within the income approach, the MEEM method was utilized which is a commonly accepted method for valuing core deposits.

## Notes to the consolidated financial statements (continued)

### 42 Business Combination (continued)

#### d. Identifiable assets acquired and liabilities assumed

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

	31 Mar 2017 AED'000
<b>Assets</b>	
Cash and balances with central banks	112,819,619
Investments at fair value through profit or loss	16,077,659
Due from banks and financial institutions	9,356,896
Reverse repurchase agreements	17,876,372
Derivative financial instruments	9,290,077
Loans and advances	207,807,269
Non-trading investments	47,105,716
Other assets	8,917,134
Investment properties	45,106
Property and equipment	1,841,308
Intangible assets – Customer relationships	1,643,517
Intangible assets – Core deposits	966,038
<b>Total assets</b>	<b>433,746,711</b>
<b>Liabilities</b>	
Due to banks and financial institutions	40,983,859
Repurchase agreements	6,600,187
Commercial paper	11,976,634
Derivative financial instruments	11,727,613
Customer accounts and other deposits	272,994,885
Term borrowings	31,308,591
Other liabilities	14,399,305
	<b>389,991,074</b>
Subordinated notes	365,234
Tier 1 capital notes	6,754,750
Share option scheme	235,798
Convertible notes - equity component	108,265
<b>Total liabilities</b>	<b>397,455,121</b>
<b>NBAD net assets as at acquisition date attributable to its common equity holders</b>	<b>36,291,590</b>

## Notes to the consolidated financial statements (continued)

### 42 Business Combination (continued)

#### e. Goodwill and Intangibles

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

	AED'000
Total consideration	53,572,167
NBAD net assets value	(36,291,590)
	<hr/>
Goodwill	17,280,577
	<hr/> <hr/>

The Group has twelve months from the date of acquisition to complete a Purchase Price Allocation (PPA) exercise which sets out in detail the way in which the fair value of the acquired NBAD financial assets and liabilities has been determined. A comprehensive PPA exercise has been undertaken and the results of this exercise are reflected in these Financial Statements. The PPA exercise is substantially complete and we do not expect any changes to the fair value of the acquired NBAD financial assets and liabilities between now and 31 March 2018 to be significant.

#### f. Impact on Group's results

From the date of acquisition until 31 Dec 2017, NBAD contributed revenue and operating income of AED 7,257 million and a profit of AED 4,030 million to the Group's results. If the acquisition had occurred on 1 January 2017, management estimate that consolidated operating income and profit for the period would be AED 19,533 million and AED 10,915 million respectively, on a similar basis the comparative figure for 2016 would have been AED 20,302 million & AED 11,322 million. In determining these amounts, the Group has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

### 43 Change in accounting policy

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

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

- **Harmonisation of the rating scales** - the Customer Risk Rating ('CRR') scales of NBAD and FGB have been harmonised to create one set of CRR scales to be followed by FAB. Key driver for the harmonisation of the policy is to provide the users of the financial statements with more reliable and consistent financial information. No new information was used in determining the revised rating scales and for the adjustment calculated as result of the harmonisation of this policy.

## Notes to the consolidated financial statements (continued)

### 43 Change in accounting policy (continued)

- **Fair valuation adjustments** – accounting policies in relation to fair valuation adjustments, for instance bid-offer reserves, were harmonised for the combined bank. Accounting standards permits entities to use a choice of pricing conventions or practical expedients in order to determine fair value of instruments. The Group has harmonised fair valuation adjustments to ensure the pricing conventions used by the Group provide more reliable approximation of the exit price for the securities held.
- **Recognition of fees income** – the Group has harmonised the combined Bank's accounting policies in order to consistently determine the fees which are recognised upfront or amortised over the life of the Loans and Advances and other financial products provided by the Bank.

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

### 44 Fiduciary activities

The Group held assets under management in trust or in a fiduciary capacity for its customers at 31 December 2017 amounting to AED 7,782.85 million (2016: nil). Furthermore, the Group provides custodian services for some of its customers.

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

### 45 Special Purpose Entities

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

Legal name	Activities	Country of incorporation	Holding 2017
One share PLC	Investment Company	Republic of Ireland	100%
NBAD Private Equity 1	Fund Management	Cayman Island	58%
NBAD (Cayman) Limited	Fund Management	Cayman Island	100%

### 46 Comparative figures

In addition to the changes in the accounting policy impact highlighted in Note 43, certain comparative figures have been reclassified where appropriate to conform to the presentation adopted in these consolidated financial statements.

# Capital Adequacy and Risk Management Report (Basel-II Pillar 3 Disclosures)

For the year ended 31 December 2017



بنك أبوظبي الأول

**FAB**

First Abu Dhabi Bank

## 1. Introduction

This document presents the Pillar 3 disclosures of FAB (“the Group”) on a consolidated basis as at 31 December 2017. The purpose of Pillar 3 disclosures is to allow market participants to assess key pieces of information on the firm's capital, risk exposures and risk assessment process.

The Group is regulated by the Central Bank of UAE (CBUAE) and follows the Pillar 3 disclosure requirements as stated under the CBUAE guidelines, issued in November 2009, on the implementation of Basel II accord. CBUAE also initiated Basel III regulatory reporting in 2017 with new capital standards for UAE Banks. Detailed guidelines with respect to Basel III would be issued over the course of 2018 post consultations with the Banks.

The Pillar 3 disclosures are to be read in conjunction with the Audited Financial Statements as of 31 December 2017.

## 2. Regulatory Framework

The Group assesses its capital adequacy based on the rules published in November 2009 by the CBUAE. The CBUAE regulatory framework is adopted from Basel II accord with applicable national discretion. The framework is structured around the following three Pillars:

- Pillar 1 on minimum capital requirements for credit, market and operational risk
- Pillar 2 on the supervisory review process and the Internal Capital Adequacy Assessment Process (ICAAP)
- Pillar 3 on market discipline

### 2.1 Pillar 1 – Minimum Capital Requirement

Pillar 1 defines the total minimum capital requirements for credit, market and operational risk. FAB currently uses standardized approach for assessment of Credit, Market and Operational Risk weighted assets (RWA). Under the standardized approach, regulatory prescribed risk weights and parameters are applied to calculate Pillar 1 capital requirements.

During 2011, Basel Committee on Banking Supervision (BCBS) officially announced the final set of revised regulatory capital rules known as “Basel III”, which are being phased in globally. Subsequent to Basel III consultation paper issued by CBUAE In 2016, new capital adequacy regulations were issued by CBUAE on 02 March 2017. The new capital regulations became effective from 1<sup>st</sup> February 2017.

CBUAE has put in regulatory thresholds for Common Equity Tier 1, Tier 1 and overall regulatory Capital.

1. CET1 must be at least 7.0% of risk weighted assets (RWA)
2. Tier 1 Capital must be at least 8.5% of RWA
3. Total Capital, calculated as the sum of Tier 1 Capital and Tier 2 Capital, must be at least 10.5% of RWA

On top of this minimum capital requirement CBUAE has also mandated the Banks to keep additional buffers.

1. In addition to the minimum CET1 capital of 7.0% of RWA, banks must maintain a capital conservation buffer (CCB) of 2.5% of RWAs in the form of CET1 capital
2. To achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth and in addition to the CCB requirements, banks may be required to implement the countercyclical buffer (CCyB). Banks must meet the CCyB requirements by using CET1 capital. The level of the CCyB requirements will vary between 0% - 2.5% of RWA and be communicated by the Central Bank with an adequate notice period



3. Banks classified as domestically systemically important banks will be required to hold additional capital buffers of 1.5% applied to CET1.

The additional capital buffer requirements are to be phased in over 3 years. These requirements are summarized in the table below:

Capital Element	Basel III 2017	Basel III 2018	Basel III 2019
Minimum Common Equity Tier 1 Ratio	7.0%	7.0%	7.0%
Minimum Tier 1 Capital Ratio	8.5%	8.5%	8.5%
Minimum Capital Adequacy Ratio	10.5%	10.5%	10.5%
Capital Conservation Buffer	1.25%	1.875%	2.5%
Domestic Systemically Important Banks Buffer	0.75%	1.125%	1.5%
Countercyclical buffer	0% - 1.25%	0% - 1.875%	0% - 2.5%

CBUAE has also released revised Capital standards for Basel III capital instruments. Capital instruments that no longer qualify as non-common equity Tier 1 or Tier 2 capital will be phased out over 10 years starting from January 2018.

The capital ratios for the Group are given below:

Common Equity Tier 1 Ratio	13.7%
Tier 1 Capital Ratio	15.5%
Capital Adequacy Ratio	16.3%

All of these are well above the CBUAE minimum.

#### a) Credit Risk

The Group uses the standardized approach to calculate RWA for credit risk. It uses risk weights to convert exposures into RWA as per the CBUAE guidelines for Basel II which can range between 0% for certain sovereign exposures to 150% for high risk exposures. Where applicable, mainly for unfunded, exposures are adjusted for credit conversion factor (CCF) in accordance with the CBUAE guidelines.

Credit Risk Capital = Net Exposure x CCF x Risk Weight x capital requirement%

For non-retail exposures the risk weights are driven by credit ratings published by external credit agencies approved by the CBUAE.

#### b) Market Risk

The Group uses the standardized approach to calculate RWA for market risk as per the CBUAE guidelines. In calculating RWA for market risk, the Group distinguishes between general and specific risk and between holdings in the trading book and holdings outside the trading book. The risk is quantified for positions for Interest rate risk, Foreign exchange risk, Equity investments risk, Commodities exposure risk and Options risk.

### c) Operational Risk

The Group applies the standardized approach for calculating capital requirement for operational risk for year-end 2017. The calculation is based on average operating income for the past 3 years and classification of the operating income into 8 Basel classification lines - Corporate Finance, Trading and Sales, Payment & Settlement, Commercial Banking, Agency Services, Retail Brokerage, Retail Banking and Asset Management. Capital requirement is calculated for each of the business lines as per their respective multipliers as per BIS which range from 12% to 18%. The RWA for operational risk are calculated by dividing the capital requirement by CBUAE capital requirement multiplier.

### 2.2 Pillar 2 - ICAAP and Supervisory Review Process

The Group performs annual ICAAP exercise with comprehensive risk assessment and stress testing and the results are submitted to the CBUAE for supervisory review process. Key highlights of the ICAAP are listed below.

- Define risk appetite of the Group
- Undertake projection of key financials, risk profile, and capital position
- Assess and quantify, where material, the risks not fully covered under Pillar 1 (e.g. concentration risk) or not covered under Pillar 1 (e.g. liquidity risk , IRRBB)
- Conduct a stress test to assess the robustness and vulnerability of Group's business model to a change in business environment

The ICAAP exercise is led by the Risk Management Group in coordination with Finance, Business and Strategy teams. This is independently reviewed by the Internal Audit team of the Bank.

### 2.3 Pillar 3 – Market Discipline

The Group, on an annual basis, discloses detailed qualitative and quantitative information on its risk management practice and capital adequacy in line with the CBUAE Pillar 3 guidelines.

### 2.4 Differences between Financial Statements and Basel II Reporting of Credit Risk Exposures

Credit risk exposures reported under Basel II differ in respect of the following vis-à-vis financial statements:

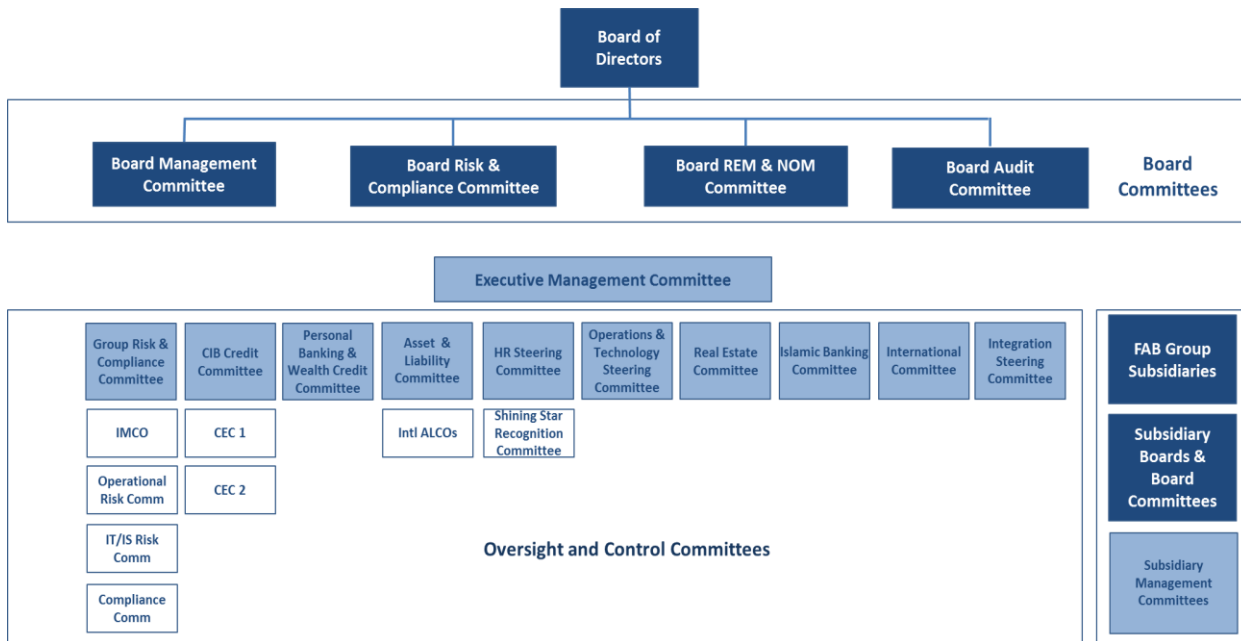
- As per CBUAE Basel framework, off balance sheet exposures are converted, by applying a credit conversion factor (CCF), into equivalent credit exposures
- Under the comprehensive credit risk mitigation approach under the standardized approach, eligible collaterals are considered subject to regulatory haircuts to estimate and report net exposure
- Commercial subsidiaries are not consolidated but risk weighted for investments in those entities
- General provisions are not netted off against loans but used as Tier 2 capital up to 1.25% of Credit RWA

## 3. Group Risk Governance

The Board is the principal decision-making forum for FAB and its responsibilities include approving the strategy; setting its risk appetite and risk management strategy; monitoring financial performance; establishing the corporate governance framework; and approving the company's corporate values. The Board is also responsible for providing oversight and challenge to senior management across a range of matters including its execution of the agreed strategy and for Board and executive management succession planning. The Board formally meets at least four times a year.

The role of the CEO and the executive management team is to execute the agreed business strategy within the agreed risk appetite. It is also the responsibility of the executive team to develop a mechanism by which FAB's vision; values and behaviors are successfully shared, communicated and imbedded in the business. Much of this is

achieved through the work of the Executive Management Committee and other senior Management Committees. The executive management team is also responsible for timely and accurate reporting to the Board and Board Committees and for the escalation of appropriate information or items. The following exhibit provides in brief structure of the Board, the Board committees and the management committees with the membership, structure, quorum, frequency.



### 3.1 Board Committees

#### a) Board Risk & Compliance Committee

The Board Risk & Compliance Committee (BRCC) is the apex risk committee at the Board level at FAB. This committee provides an oversight and advice to FAB Board in relation to current and potential future risk exposures of FAB. It also considers and helps in formulating a direct future risk strategy, including determination of risk appetite and tolerance as well as promotes a risk awareness culture among FAB. The committee meets on a quarterly basis or frequently as appropriate. Under authority delegated by the Board, BRCC plays a key role in the fulfillment of corporate governance standards and overall risk management by assisting the Board in formulation of strategy for enterprise-wide risk management, evaluation of overall risks faced by FAB, alignment of risk policies with business strategies, determination of the level of risks which will be in the best interest of FAB and through risk based capital planning. The BRCC, by virtue of powers delegated to it by the Board, also approves changes in risk management policies as and when required.

#### b) Board Audit Committee

This committee is principally responsible for reviewing the internal audit program, considering the major findings of each internal audit review, making appropriate investigations and responses and ensuring co-ordination between the internal and external auditors and keeping under review the effectiveness of internal control systems, and in particular reviewing the external auditor's management letter and management's response. The committee meets on a quarterly basis or frequently as appropriate.

## 3.2 Management Committees

### a) Group Risk & Compliance Committee

FAB has a management level Group Risk & Compliance Committee (GRCC) to assist Board and Board Committees in fulfilling its objective of overseeing FAB's risk and compliance related responsibilities. The committee oversees adherence of the best in class ERM Framework aligned with Group's vision to drive shareholder value. It also focuses on FAB's compliance with respect to legal and regulatory requirements and relevant policies and procedures including code of ethics and matters relating to operating and non-operating financial risk and also ensures FAB's compliance with Anti Money Laundering ("AML") and other relevant legislation issued by UAE Central Bank and / or other regulatory authorities, as applicable. FAB also has Sub Risk Committees namely Operational Risk Committee, Compliance Committee and Information Security Committee focusing on the respective risk and compliance areas. These committees report into GRCC.

### b) Group Asset & Liability Committee

FAB has a management level Group Asset Liability Committee (GALCO) to assist Board and Board Committees in fulfilling its responsibility to oversee FAB's asset and liability management (ALM) functions. The objective of GALCO is to maintain constant oversight of interest rate risk and liquidity risk with the primary goal of achieving optimal return while ensuring adequate levels of liquidity within an effective risk control framework.

### c) Compliance Committee

FAB has a management level Compliance Committee (CC) to assist GRCC in fulfilling its objective of overseeing FAB Group's compliance related responsibilities. The committee oversees Group's compliance with respect to legal and regulatory requirements and relevant policies and procedures including Code of Ethics and matters relating to operating and non-operating financial risk and also ensures the Group's compliance with Anti Money Laundering and other relevant legislation issued by regulatory authorities.

### d) Operational Risk Committee

FAB has a management level Operational Risk Committee (ORC) to assist GRCC in fulfilling its objective of overseeing FAB Group's Operational Risk & Fraud Risk Management. Responsibility areas for ORC include management & reporting of operational and fraud risk profile, related policies, framework and strategy of FAB Group.

### e) Information Security Committee

FAB has a management level Information Security Committee (ISC) to assist GRCC in fulfilling its objective of overseeing FAB Group's information security risk management and business continuity management. Responsibility areas for ISC include management & reporting of information security risk profile, ratifying related policy and procedures, integrated business continuity management policy and business recovery strategy of FAB Group.

## 3.3 Group Risk

FAB has a centralized risk management function – Group Risk Management which is led by the GCRO. The function comprises of Enterprise Risk Management Unit, Credit Risk Management Unit, Operational Risk Management Unit, Fraud Risk Management Unit, Market & Liquidity Risk Management Unit, Information Security & Business Continuity Management, Group Compliance, Group Legal & Corporate Governance and Risk Integration and Portfolio Analytics unit. It is the nerve center for collection of data, analysis of risk drivers, interpretation of outcome and its wide dissemination to relevant committees for risk management. Following diagram provides Group Risk and Compliance Organization Structure at FAB.



### 3.4 Risk Appetite

Risk Appetite of a bank is the single most important factor in determination of risk tolerance and setting risk target and risk limits across various dimensions and risk types. It reflects an organization's risk management philosophy and in turn influences its culture and operating style. Risk Appetite, if properly articulated, understood and implemented proves to be the cornerstone of an organization's ERM framework. The risk appetite framework for FAB has been developed using the top down approach taking into consideration the existing framework at both the legacy Banks.

The entire risk appetite framework has been designed & implemented through three tiered mechanism. This methodology has been approved by the Executive Management Committee and the BRCC. As per this methodology FAB has adopted a three-tiered structure for the Risk Appetite Framework. The brief description of the three-tiered structure is given hereunder:

- 1. Tier 1 – FAB Level:** This level pertains to the risk appetite at the FAB level which includes business groups, support groups and material subsidiaries. A comprehensive set of risk & performance metrics have been provided; these have been classified as primary metrics, and monitoring metrics. In addition, there are some qualitative and zero tolerance metrics articulated at FAB level.
- 2. Tier 2- Business & Support Groups:** In line with the leading industry practices, FAB level risk appetite is cascaded down to individual business groups, support groups and subsidiaries listed below. Tier 2 signifies the cascading of Group level metrics down to the business and support group such as CIB, PBWG, TG, International Locations, Subsidiaries COO Group etc. Risk appetite would further be cascaded down one level to business sub units or sub segments. Cascading down to business sub units or sub segments is done for the purpose of monitoring and managing risks at a more granular level and better performance assessment within business units.
- 3. Tier 3 – Embedding and implementation of Risk Appetite:** In order to implement the Risk Appetite Framework, the above-mentioned risk appetite metrics have been embedded in respective policies and procedures, KPIs and balance scorecards, and risk MIS.

Specific dimensions that are considered to implement the target risk taking approach include Capital Adequacy, Financial Performance and Efficiency, Liquidity and Funding, Credit asset quality, Risk Concentration, Operational Efficiency, Market risk exposures, and human resources. Specific tolerances are defined as targets and actual vs. target levels are monitored on a periodic basis. The target levels are reflective of the prudent risk management practices, regulatory requirements and market realities in different jurisdictions in which FAB is operating.

### 4. Capital Management

The Group is governed by CBUAE guidelines on regulatory capital requirements on a consolidated basis, including all its subsidiaries and overseas branches. In addition to capital management at Group level, the overseas branches and subsidiaries are directly supervised by their local regulators for operations carried out by those specific entities.

## Name of the Report

- 1 Information on Subsidiaries & Significant investments
- 2 Consolidated Capital Structure (Basel II / Basel III)
- 3 Capital Adequacy (Basel II / Basel III)
- 4(a) Qualitative Disclosures - Risk Management
- 4(b) Gross Credit Exposure by Currency
- 4(c) Gross Credit Exposure by Geographical Distribution
- 4(d) Gross Credit Exposure by Industry Segment
- 4(e) Gross Credit Exposure by Residual Contract Maturity
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- 4(g) Impaired Loans by Geographical Distribution
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- 5 Basel II Portfolio as per Standardized Approach (Rated / Unrated)
- 6 Credit Risk Mitigation - Disclosures for Standardized Approach
- 7 Counterparty Credit Risk Exposure
- 8 Market Risk - Capital Requirements under Standardized Approach
- 9 Equity Position in the Banking Book
- 10 Interest Rate Risk in the Banking Book

## 1. Information on Subsidiaries & Significant Investments

	Country of Incorporation	% Ownership	Description	Accounting Treatment
<b>Subsidiaries</b>				
NBAD Americas N.V. (formerly Abu Dhabi International Bank N.V.)	Curacao	100%	Banking	Full Consolidation
NBAD Securities LLC	United Arab Emirates	100%	Brokerage	Full Consolidation
Abu Dhabi National Leasing LLC	United Arab Emirates	100%	Leasing	Full Consolidation
Abu Dhabi National Properties PJSC	United Arab Emirates	100%	Property Management	Full Consolidation
NBAD Private Bank (Suisse) SA	Switzerland	100%	Banking	Full Consolidation
Abu Dhabi National Islamic Finance Pvt. JSC	United Arab Emirates	100%	Islamic Finance	Full Consolidation
Ample China Holdings Limited	Hong Kong	100%	Leasing	Full Consolidation
Abu Dhabi Brokerage Egypt	Egypt	96%	Brokerage	Full Consolidation
National Bank of Abu Dhabi Malaysia Berhad	Malaysia	100%	Banking	Full Consolidation
NBAD Employee Share Options Limited	United Arab Emirates	100%	Shares and Securities	Full Consolidation
SAS 10 Magellan	France	100%	Leasing	Full Consolidation
NBAD Global Multi-Strategy Fund	Cayman Island	100%	Fund Management	Full Consolidation
National Bank of Abu Dhabi Representações Ltda	Brazil	100%	Representative office	Full Consolidation
NBAD Financial Markets (Cayman) Limited	Cayman Islands	100%	Financial Institution	Full Consolidation
Nawat Management Services	United Arab Emirates	100%	Services	Full Consolidation
Mismak Properties Co. LLC (Mismak)	United Arab Emirates	100%	Real estate investments	Full Consolidation
First Merchant International LLC	United Arab Emirates	100%	Real estate investments	Full Consolidation
FGB Sukuk Company Limited	Cayman Islands	100%	Special purpose vehicle	Full Consolidation
FGB Sukuk Company II Limited	Cayman Islands	100%	Special purpose vehicle	Full Consolidation
First Gulf Libyan Bank	Libya	50%	Banking services	Full Consolidation
FGB Global Markets Cayman Limited	Cayman Islands	100%	Financial Institution	Full Consolidation
First Gulf Properties LLC	United Arab Emirates	100%	Management and brokerage of real estate properties	Full Consolidation
Aseel Finance PJSC	United Arab Emirates	100%	Islamic finance	Full Consolidation
Dubai First PJSC	United Arab Emirates	100%	Credit card finance	Full Consolidation
First Gulf Information Technology LLC	United Arab Emirates	100%	IT Services	Full Consolidation
<b>Significant Investments</b>				
Green Emirates Properties PJSC	United Arab Emirates	40%	Real Estate Management / Investments	Investment
Midmak Properties LLC	United Arab Emirates	16%	Real Estate Management / Investments	Investment
Mercury Payments Services LLC	United Arab Emirates	30%	Investments and Payment Service Schemes	Investment
Emirates Digital Wallet LLC	United Arab Emirates	23%	Financial Institution	Investment

## 2. Consolidated Capital Structure Under Basel II

All numbers in AED 000s

	Summary Terms & Conditions of main features of all Capital Instruments	Amount
<b>Tier 1 Capital</b>		
1. Paid up share capital / common stock		63,881,755
2. Reserves		
a. Statutory Reserve		7,081,074
b. Special Reserve		-
c. General Reserve		120,000
d. Retained Earnings		11,049,271
3. Minority Interest in the Equity of Subsidiaries		487,015
4. Innovative Capital Instruments		-
5. Other Capital Instruments		
a. Mandatory Convertible Bonds		-
b. Interest Paid Convertible Bonds		-
c. Subordinated Perpetual Notes	Note 25 of the Financial Statements for 2017	10,754,750
6. Surplus Capital from Insurance Companies		
<b>Sub Total</b>		<b>93,373,864</b>
Less: Deductions from Regulatory Calculation		(20,326,537)
Less: Deductions from Tier 1 Capital		(20,152)
<b>Tier 1 Capital after deductions</b>		<b>73,027,175</b>
<b>Tier 2 Capital</b>		<b>5,971,750</b>
Less: Other deductions from Capital		(20,152)
<b>Tier 3 Capital</b>		
<b>Total eligible Capital after all deductions</b>		<b>78,978,773</b>



## 2(a). Consolidated Capital Structure Under Basel III

All numbers in AED 000s

Capital Base	Summary Note and References	Amount
<b>1. Common Equity Tier 1 (CET1) Capital</b>		
1.1 Share Capital	Note 24 of Financial statements	10,897,545
1.2 Share premium account		53,026,643
1.3 Eligible Reserves		7,419,344
1.4 Retained Earnings / (-) Loss		11,049,271
1.5 Eligible amount of minority interest		487,015
1.6 Capital shortfall if any		-
<b>CET1 capital Before the regulatory adjustments and threshold deduction</b>		<b>82,879,818</b>
1.7 Less: Regulatory deductions	Goodwill, intangible assets & DTA	20,342,481
1.8 Less: Threshold deductions		-
<b>Total CET1 capital after the regulatory adjustments and threshold deduction</b>		<b>62,537,337</b>
<b>Total CET1 capital after transitional arrangement for deductions (CET1)</b>		<b>66,605,833</b>
<b>2. Additional Tier 1 (AT1) Capital</b>		
2.1 Eligible AT1 capital (After grandfathering)	Note 25 of Financial statements	10,754,750
2.2 Other AT1 Capital e.g. (Share premium, minority interest)		
<b>Total AT1 capital</b>		10,754,750
<b>Total AT1 capital after transitional arrangements (AT1)</b>		<b>8,720,502</b>
<b>3. Tier 2 (T2) Capital</b>		
3.1 Tier 2 Instruments e.g. subordinated loan (After grandfathering and/or amortization)	Note 22 of Financial statements	420,381
3.2 Other Tier 2 capital (including General Provisions, etc.) 1		5,270,832
<b>Total T2 Capital</b>		<b>5,691,213</b>
<b>Total T2 capital after transitional arrangements (T2)</b>		3,656,965
<b>Total Regulatory Capital</b>		<b>78,983,300</b>

### 3. Capital Adequacy Under Basel II

All numbers in AED 000s

Capital Requirements		RWA	Capital Charge
	1. Credit Risk		
	a. Standardized Approach	421,602,405	50,592,289
OR	b. Foundation IRB		
OR	c. Advanced IRB		
	2. Market Risk		
	a. Standardized Approach	28,054,810	3,366,577
OR	b. Models Approach		
	3. Operation Risk		
	a. Basic Indicator Approach		
OR	b. Standardised Approach/ASA	35,619,434	4,274,332
OR	c. Advanced Measurement Approach		
	<b>Total Risk Weighted Assets</b>	<b>485,276,649</b>	
	<b>Total Capital Charge</b>		<b>58,233,198</b>
	<b>Capital Ratios</b>		
	a. Total for Top Consolidated Group		16.3%
	b. Tier 1 Ratio only for Top Consolidated Group		15.0%
	c. Total for each significant Bank Subsidiary		

### 3(a). Capital Adequacy Under Basel III

Capital Requirement	RWA	Capital Charge	Capital Ratio%
1. Credit Risk - Standardized Approach	421,666,579	52,708,322	
2. Market Risk - Standardized Approach	28,054,810	3,506,851	
3. Operation Risk	35,619,434	4,452,429	
a. Basic Indicator Approach			
b. Standardised Approach/ASA	35,619,434	4,452,429	
c. Advanced Measurement Approach			
<b>Total Capital requirements</b>	<b>485,340,823</b>	<b>60,667,603</b>	
<b>Capital Ratio</b>			
<b>a. Total for Top consolidated Group</b>			<b>16.3%</b>
<b>b. Tier 1 ratio only for top consolidated</b>			<b>15.5%</b>
<b>c. CET1 ratio only for top consolidated Group</b>			<b>13.7%</b>

## 4(a). Qualitative Disclosures - Risk Management

### Definition of past due and impaired (for accounting purposes)

The Bank considers any overdue payment as "Past due" and follows the UAE Central Bank circular 28/2010 on regulations regarding classification of loans and their provisions for the definition of "impaired loans" .

### Description of approaches followed for specific and general allowances and statistical methods

#### Specific

The Bank reviews its impaired loans and advances on a regular basis to assess the amount of specific provision for impairment to be recorded in the consolidated income statement. Provisions for impaired assets are based on UAE Central Bank circular 28/2010. The Corporate and Investment Banking loan portfolio is categorized across 5 grades as per the circular and specific provisions are taken for 'Substandard', 'Doubtful' and 'Loss' grades as per the circular. For retail and consumer loans, the Bank takes specific provisions based on number of days past due as per the circular. All the regulations in the circular including regulations pertaining to calculation of provisions and collateral value, interest suspension on past due loans, interest suspension on overdraft facilities, provisioning for off balance sheet items, write-backs of provisions and write-off of loans and advances are consistently followed.

#### General

As per the UAE Central Bank circular 28/2010, general provisions requirement is assessed based on the total Credit Risk Weighted Assets (CRWA) calculation. The provisions requirement of 1.5% of total Credit Risk Weighted Assets (CRWA) has been built up as guided by the circular. CRWA is calculated using the Basel II / Basel III standardized approach. The Bank is in the process of transitioning towards provisions based on IFRS 9 accounting standards.

### Discussion of Bank's credit risk management policy

FAB's Enterprise Risk Management Policy (ERMP) framework aims to accomplish its core values & purpose of being a world class organization maximizing its risk adjusted returns for all stakeholders by establishing an enterprise wide risk management framework across the FAB Group including its local & international branches, subsidiaries, associates and foreign rep offices. Core objective of ERMP is to provide a reasonable degree of assurance to the BoD that the risks threatening the Bank's achievement of its core purpose are being identified, measured, monitored and controlled through an effective integrated risk management system covering credit, market, operational, interest rate, liquidity and all other material risks including Strategic risk, Country risk, Reputation risk, etc. FAB's ERMP framework covers specific policy documents on the following: Enterprise Risks, Strategic risk, Reputation risk, ICAAP, Risk Appetite, Model Governance, New Product Approvals, Wholesale Banking Credit risk, Consumer Banking Credit risk, Market risk, Operational risk, Fraud Risk, Liquidity and Interest Rate risk, AML and Sanctions risk, Compliance risk, IT and IS risk Business Continuity risks etc. In addition to these risk management policies, detailed policies and procedures have also been put in place across all functional areas.

From 1st January 2018 the Bank has adopted IFRS 9 standards, as issued by the IASB in July 2014. The introduction of IFRS 9 brings a fundamental change from IAS 39 as IFRS 9 expected credit loss (ECL) model is forward looking compared to the current incurred loss approach. Adoption of IFRS 9 in 2018 will result in revisions to accounting policies and 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. However, Pillar 3 disclosures for 2017 are not affected by IFRS 9 and have been prepared based on policies, procedures and risk measurement approaches followed by FAB as at 31 Dec 2017. Further details on the impact of IFRS 9 on the bank's risk management have been provided in FAB's 2017 financial statements.

### Partial adoption of Foundation IRB / Advanced IRB

Approach	Description of exposures	Plans and timing of migration to implement fully higher approach
Standardized Approach	As per Basel II / Basel III categorization	FAB is already on Standardized approach.
Foundation IRB	As per Basel II categorization	<p>In addition to the RWA calculations as per the Standardized approach of Basel, the Bank also has internal rating models which have been harmonized from the internal rating models of the legacy Banks. These credit risk models cover across its Corporate &amp; Investment Banking (CIB) and Personal Banking &amp; Wealth (PBW) portfolios. These models would be redeveloped for the entire FAB portfolio going forward. The Bank also has the annual model validation process in place as per the Basel II minimum requirements. This includes use-testing and external validation of credit risk models.</p> <p>In the CIB portfolio, the Bank has harmonized ORR / PD models covering industry specific Corporate models, FI model, High Networth Individual model, SME model and Specialized Lending models. Detailed documentation pertaining to model development, testing, validation, use-testing and governance had been prepared for the legacy Banks to aid the IRB application process and would be redone for FAB once the model development and testing is completed for the FAB models.</p> <p>In the PBW portfolio, the Bank has harmonized the product specific scorecard and rating models; these include scorecards for Credit cards and Personal Loans and rating models for SME Loans, Auto Loans, Residential Mortgage Loans. These models would also be redeveloped and tested for FAB.</p>
Advanced IRB	Planned as per Basel II categorization	Legacy Banks had developed generic models for LGD and EAD for the lending portfolios. These models would be redeveloped for FAB and validated and use tested before the Bank shifts to AIRB.

**4(b). Gross Credit Exposure by Currency**

All numbers in AED 000s

Currency	Loans	Debt Securities	Other Exposures	Total Funded	Commitments		OTC Derivatives			Other Off Balance Sheet Exposures		Total Non Funded (Credit Risk Exposure)	Total
					without ccf	with ccf	Notional Amount	Positive Fair Value	Credit Risk Exposure	without ccf	with ccf		
Foreign Currency	194,403,978	104,818,999	19,903,939	319,126,916	35,888,971	14,956,658	1,436,432,499	10,817,346	16,072,584	106,830,417	48,807,527	79,836,769	398,963,685
AED	150,685,080	-	167,147,533	317,832,613	12,666,479	5,047,326	124,345,241	582,086	1,089,117	45,607,181	21,539,371	27,675,814	345,508,427
Provisions & IIS	(14,623,170)	-	-	(14,623,170)	-	-							(14,623,170)
<b>Total</b>	<b>330,465,888</b>	<b>104,818,999</b>	<b>187,051,472</b>	<b>622,336,359</b>	<b>48,555,450</b>	<b>20,003,984</b>	<b>1,560,777,740</b>	<b>11,399,432</b>	<b>17,161,701</b>	<b>152,437,598</b>	<b>70,346,898</b>	<b>107,512,583</b>	<b>729,848,942</b>

**4(c). Gross Credit Exposure by Geographical Distribution**

All numbers in AED 000s

Geographical Region	Loans	Debt Securities	Other Exposures	Total Funded	Commitments		OTC Derivatives			Other Off Balance Sheet Exposures		Total Non Funded (Credit Risk Exposure)	Total
					without ccf	with ccf	Notional Amount	Positive Fair Value	Credit Risk Exposure	without ccf	with ccf		
United Arab Emirates	225,405,727	37,677,825	53,484,915	316,568,467	20,758,149	7,655,059	202,820,674	2,099,778	2,330,428	105,597,814	45,375,563	55,361,050	371,929,517
GCC excluding UAE	20,069,913	16,042,311	4,262,222	40,374,446	4,124,700	1,885,545	131,155,766	888,020	1,564,387	5,817,354	2,575,312	6,025,244	46,399,691
Arab League (excluding GCC)	6,769,794	3,906,220	8,619,854	19,295,868	255,138	124,296	18,427,401	172,488	156,918	2,549,471	1,017,187	1,298,401	20,594,268
Asia	21,368,849	17,852,233	2,245,616	41,466,698	3,035,226	1,105,482	104,893,776	616,860	1,529,252	8,954,804	4,501,433	7,136,167	48,602,864
Africa	2,473,112	386,513	15,283	2,874,909	1,058,601	494,430	403,820	2,378	4,039	424,275	222,112	720,582	3,595,490
North America	7,254,730	11,210,605	32,384,727	50,850,062	3,528,972	1,587,705	58,611,198	30,595	842,836	4,688,022	2,499,104	4,929,645	55,779,707
South America	18,913,716	-	1,829	18,915,546	541,768	160,694	11,411,326	28,563	284,136	1,103,959	975,474	1,420,303	20,335,849
Caribbean	461,065	-	236,638	697,703	579,424	118,742	1,985,091	15,299	8,249	51,829	42,355	169,346	867,049
Europe	41,443,951	17,332,044	85,756,136	144,532,131	10,837,450	4,955,088	1,023,894,540	7,527,951	10,343,582	22,886,521	12,956,549	28,255,220	172,787,350
Australia	928,200	411,248	44,252	1,383,699	27,793	12,830	4,932,567	14,749	86,416	39,848	19,954	119,200	1,502,899
Others					3,808,232	1,904,114	2,241,579	2,751	11,458	323,700	161,855	2,077,427	2,077,427
Provisions & IIS	(14,623,170)			(14,623,170)	-	-							(14,623,170)
<b>Total</b>	<b>330,465,888</b>	<b>104,818,999</b>	<b>187,051,472</b>	<b>622,336,358</b>	<b>48,555,452</b>	<b>20,003,984</b>	<b>1,560,777,740</b>	<b>11,399,432</b>	<b>17,161,701</b>	<b>152,437,598</b>	<b>70,346,898</b>	<b>107,512,583</b>	<b>729,848,942</b>

**4(d). Gross Credit Exposure by Industry Segment**

All numbers in AED 000s

Industry Segment	Loans	Debt Securities	Other exposures	Total Funded	Commitments		OTC Derivatives			Other Off Balance Sheet Exposures		Total Non Funded (Credit Risk Exposure)	Total
					without ccf	with ccf	Notional Amount	Positive Fair Value	Credit Risk Exposure	without ccf	with ccf		
Agriculture, Fishing & Related activities	435,808	-	301,089	736,897	-	-	-	-	-	300,972	108,049	108,049	844,946
Crude Oil, Gas, Mining & Quarrying	15,553,940	3,974,232	343,283	19,871,455	5,220,374	2,420,763	5,811,793	192,874	138,815	6,439,174	3,771,967	6,331,545	26,203,001
Manufacturing	20,178,714	357,300	554,983	21,090,998	4,653,908	2,064,389	27,339,919	269,590	585,067	16,925,817	8,761,008	11,410,463	32,501,461
Electricity & Water	8,671,520	9,140,241	48,573	17,860,334	2,290,522	955,828	8,579,328	724,001	107,403	4,302,015	3,480,603	4,543,834	22,404,168
Real Estate & Construction	102,565,225	621,959	1,096,272	104,283,456	14,313,261	6,207,517	14,433,443	218,399	150,366	40,722,144	21,590,052	27,947,936	132,231,392
Trade	22,877,522	126,662	2,534,031	25,538,215	2,170,578	629,899	12,065,609	103,495	250,337	9,501,559	3,882,917	4,763,153	30,301,368
Transport, Storage & Communication	26,421,661	5,035,016	128,829	31,585,505	5,196,425	2,414,589	13,310,391	329,442	384,954	5,545,802	3,061,113	5,860,656	37,446,161
Financial Services	47,740,283	41,739,126	40,316,415	129,795,824	8,948,372	3,704,580	1,451,193,328	9,275,993	15,141,441	19,590,834	11,529,954	30,375,975	160,171,799
Other Services	24,228,514	94,875	205,943	24,529,332	2,185,704	646,782	3,184,654	111,725	30,538	12,510,249	6,534,394	7,211,715	31,741,047
Government	5,006,234	43,354,376	137,907,820	186,268,430	1,159,921	255,393	9,828,929	163,007	50,876	35,781,590	7,160,019	7,466,287	193,734,717
Retail / Consumer Banking	66,424,421		769,913	67,194,334	1,754,283	411,831	5,200,350	25	56,984	153,229	148,667	617,482	67,811,816
All Others	4,985,215	375,211	2,844,321	8,204,748	662,104	292,413	9,829,995	10,881	264,920	664,212	318,156	875,489	9,080,237
Provisions & IIS	(14,623,170)		-	(14,623,170)								-	(14,623,170)
<b>Total</b>	<b>330,465,888</b>	<b>104,818,999</b>	<b>187,051,472</b>	<b>622,336,359</b>	<b>48,555,451</b>	<b>20,003,984</b>	<b>1,560,777,740</b>	<b>11,399,432</b>	<b>17,161,701</b>	<b>152,437,597</b>	<b>70,346,898</b>	<b>107,512,583</b>	<b>729,848,942</b>

**4(e). Gross Credit Exposure by Residual Contract Maturity**

All numbers in AED 000s

Residual Maturity	Loans	Debt Securities	Other exposures	Total Funded	Commitments		OTC Derivatives			Other Off Balance Sheet Exposures		Total Non Funded (Credit Risk Exposure)	Total
					without ccf	with ccf	Notional Amount	Positive Fair Value	Credit Risk Exposure	without ccf	with ccf		
Less than 3 months	78,875,521	7,084,501	166,547,539	252,507,561	8,397,720	2,108,202	372,366,248	1,821,287	2,752,612	63,054,997	32,440,213	37,301,027	289,808,588
3 months to one year	37,974,179	11,761,154	20,503,933	70,239,266	11,189,943	3,544,418	350,073,834	1,456,835	2,151,018	21,827,746	10,028,877	15,724,313	85,963,580
One to five years	119,567,762	38,636,550		158,204,312	23,899,797	11,817,369	595,270,069	4,677,175	6,981,447	36,268,758	13,749,096	32,547,912	190,752,225
Over five years	108,671,596	47,336,793		156,008,389	5,067,992	2,533,996	243,067,589	3,444,135	5,276,624	31,286,096	14,128,711	21,939,330	177,947,720
Provisions & IIS	(14,623,170)			(14,623,170)								-	(14,623,170)
<b>Total</b>	<b>330,465,888</b>	<b>104,818,999</b>	<b>187,051,472</b>	<b>622,336,359</b>	<b>48,555,451</b>	<b>20,003,984</b>	<b>1,560,777,740</b>	<b>11,399,432</b>	<b>17,161,701</b>	<b>152,437,597</b>	<b>70,346,897</b>	<b>107,512,583</b>	<b>729,848,941</b>



#### 4(f). Impaired Loans by Industry Segment

All numbers in AED 000s

Industry Segment	Overdue / Impaired Assets			Provisions			Adjustments	
	Overdue	Impaired Assets	Total Funded	IIS	Specific	General	Writeoffs	Write Backs
Agriculture, Fishing & Related activities	2,035	1,548	3,584	63	4,569		1,360	-
Crude Oil, Gas, Mining & Quarrying	-	-	-	-	-		-	-
Manufacturing	485,463	396,929	882,392	34,705	113,113		389,935	-
Electricity & Water	183,820	43,917	227,737	8,208	63,911		8,667	-
Real Estate & Construction	3,021,360	4,316,709	7,338,069	617,323	1,055,992		354,079	-
Trade	865,311	1,217,541	2,082,852	128,280	710,201		897,582	-
Transport, Storage & Communication	67,506	302,612	370,118	55,175	102,480		60,751	-
Financial Services	42,119	681,487	723,606	132,964	191,288		1,544	-
Other Services	797,241	643,245	1,440,486	77,116	273,464		143,021	-
Government (including Public Sector)	1	12,401	12,402	0	12,739		-	-
Retail / Consumer Banking	3,498,797	4,802,923	8,301,720	775,793	2,009,160		1,671,721	-
All Others	21,927	72,843	94,770	65,433	44,347		104,793	-
<b>Total</b>	<b>8,985,580</b>	<b>12,492,156</b>	<b>21,477,736</b>	<b>1,895,059</b>	<b>4,581,263</b>	<b>-</b>	<b>3,633,454</b>	<b>-</b>

The collateral held against the past due and impaired loans totalled AED 711,958 thousand in the form of under lien fixed deposits, cash margins, equities, bank guarantees, machinery & equipment, mortgaged properties, motor vehicles, shipping vessels, aircrafts etc.

#### 4(g). Impaired Loans by Geographical Distribution

All numbers in AED 000s

Geographical Region	Overdue / Impaired Assets			Provisions			Adjustments	
	Overdue	Impaired Assets	Total Funded	IIS	Specific	General	Writeoffs	Write Backs
United Arab Emirates	7,394,264	11,109,832	18,504,096	1,771,933	3,918,671		3,317,522	
GCC excluding UAE	490,361	467,341	957,703	51,334	373,771		21,265	
Arab League (excluding GCC)	191,575	252,151	443,726	53,195	117,877		294,667	
Asia	707,556	496,834	1,204,390	12,336	67,170		-	
Africa	152,165	-	152,165	-	42,530		-	
North America	0	7,220	7,220	251	338		-	
South America	-	-	-	-	-		-	
Caribbean	36,400	52,104	88,504	-	24,185		-	
Europe	13,254	106,672	119,926	6,010	36,722		-	
Australia	4	-	4	-	-	-	-	-
<b>Total</b>	<b>8,985,580</b>	<b>12,492,154</b>	<b>21,477,734</b>	<b>1,895,059</b>	<b>4,581,263</b>	<b>-</b>	<b>3,633,454</b>	<b>-</b>

#### 4(h). Reconciliation of changes in Provisions for Impaired Loans

All numbers in AED 000s

	Description	
	<b>Opening Balance of Provisions for Impaired Loans</b>	<b>13,387,120</b>
Add:	Charge for the year	
	• Corporate, Retail Specific provisions	2,719,151
	• Corporate, Retail and International Division General provisions	(356,854)
	• Impact of Accounting Policy alignment	325,260
Less:	Write-off of provisions for impaired loans	(3,346,566)
Less:	Recovery of loan loss provisions	
Less:	Recovery of loans previously written-off	
Less:	Notional Interest on Impaired Loans & Advances	
Less:	Write-back of provisions for loans	
	Adjustments of loan loss provisions (acquired in business combination)	
	<b>Closing Balance of Provisions for Impaired Loans</b>	<b>12,728,111</b>

**4(i). Basel II Portfolio as per Standardized Approach**

All numbers in AED 000s

ASSET CLASSES  See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions	ON BALANCE SHEET			OFF BALANCE SHEET	EXPOSURE BEFORE CRM AFTER CCF*	CREDIT RISK MITIGATION (CRM)				RISK WEIGHTED ASSETS
	GROSS OUTSTANDING	Interest in Suspense and Specific Provisions	NET OUTSTANDING	NET EXPOSURE AFTER CREDIT CONVERSION FACTORS (CCF)		CRM	CRM AFTER CCF	EXPOSURE AFTER CRM AND CCF	Reduction in RWA through Guarantees held as CRM	
CLAIMS ON SOVEREIGNS	182,287,778	-	182,287,778	7,652,516	189,940,294	1,362,113	1,362,017	188,578,277		11,279,239
CLAIMS ON NON-CENTRAL GOVERNMENT PUBLIC SECTOR ENTITIES (PSEs)	2,294,136	-	2,294,136	381,491	2,675,627	-	-	2,675,627		-
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	3,199,260	-	3,199,260	1,331	3,200,592	-	-	3,200,592		47,235
CLAIMS ON BANKS	95,446,789	-	95,446,789	20,809,032	116,255,821	54,365,616	54,331,825	61,923,996		35,569,409
CLAIMS ON SECURITIES FIRMS	15,846,434	-	15,846,434	7,498,437	23,344,871	14,247,180	14,247,175	9,097,696	143,725	5,210,990
CLAIMS ON CORPORATES	224,666,438	382,973	224,283,465	74,946,807	299,230,272	19,320,675	16,249,288	282,980,984	3,597,265	253,375,669
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	54,827,121	14,010	54,813,111	545,726	55,358,837	4,327,949	4,218,707	51,140,129	1,391,682	40,366,221
CLAIMS SECURED BY RESIDENTIAL PROPERTY	11,681,861	-	11,681,861	-	11,681,861	65,355	65,355	11,616,506		5,191,947
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	41,460,004	1,546,740	39,913,264	3,034,746	42,948,010	512,659	512,659	42,435,351	-	42,435,351
PAST DUE LOANS	14,818,696	6,167,477	8,651,219	-	8,651,219	969,531	969,531	7,681,688	67,317	9,724,593
HIGHER-RISK CATEGORIES	1,845,712	-	1,845,712	985,495	2,831,207	-	-	2,831,207	-	4,246,811
OTHER ASSETS	39,159,145	82,177	39,076,968	43,210	39,120,178	-	-	39,120,178	-	12,857,172
CLAIMS ON SECURITISED ASSETS	4,733,810	-	4,733,810	-	4,733,810	-	-	4,733,810	-	1,361,943
CREDIT DERIVATIVES (Banks Selling protection)	-	-	-	-	-	-	-	-	-	-
<b>TOTAL CLAIMS</b>	<b>692,267,185</b>	<b>8,193,377</b>	<b>684,073,808</b>	<b>115,898,790</b>	<b>799,972,598</b>	<b>95,171,078</b>	<b>91,956,558</b>	<b>708,016,040</b>	<b>5,199,989</b>	<b>421,666,579</b>

CRM includes collateral in the form of cash, equities and financial guarantees

5. Basel II Portfolio as per Standardized Approach (Rated / Unrated)

All numbers in AED 000s

Asset Class	ON BALANCE SHEET				OFF BALANCE SHEET			EXPOSURE BEFORE CRM			CRM	EXPOSURE AFTER CRM			Reduction in RWA through Guarantees held as CRM	RWA		
	GROSS	NET		NET EXPOSURE AFTER CREDIT CONVERSION FACTORS (CCF)			Total	Rated	Unrated	Total		Rated	Unrated	Total		Total	Rated	Unrated
		Total	Rated	Unrated	Total	Rated					Unrated				Total			
CLAIMS ON SOVEREIGNS	182,287,778	174,512,443	7,775,335	182,287,778	7,215,596	436,892	7,652,487	181,728,039	8,212,226.58	189,940,265	1,362,017	181,728,039	6,850,209	188,578,248	0	5,755,637	5,523,602	11,279,239
CLAIMS ON NON-CENTRAL GOVERNMENT PUBLIC SECTOR ENTITIES (PSEs)	2,294,136	1,952,477	341,658	2,294,136	381,491	0	381,491	2,333,968	341,658	2,675,627	0	2,333,968	341,658	2,675,627	0	0	0	0
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	3,199,260	3,189,787	9,474	3,199,260	0	1,331	1,331	3,189,787	10,805	3,200,592	0	3,189,787	10,805	3,200,592	0	47,235	0	47,235
CLAIMS ON BANKS	95,446,789	92,049,698	3,397,091	95,446,789	18,126,449	2,682,594	20,809,043	110,176,147	6,079,685	116,255,832	54,331,825	55,844,322	6,079,685	61,924,007	0	33,344,247	2,225,162	35,569,409
CLAIMS ON SECURITIES FIRMS	15,846,434	15,125,035	492,358	15,617,392	7,282,486	215,951	7,498,437	22,407,521	708,308	23,115,829	14,247,175	8,160,346	708,308	8,868,654	143,725	4,647,803	563,187	5,210,990
CLAIMS ON CORPORATES	224,666,438	35,415,007	189,097,501	224,512,507	16,195,988	58,750,831	74,946,819	51,610,995	247,848,331	299,459,326	16,249,288	51,610,995	231,599,044	283,210,039	3,597,265	23,702,567	229,673,102	253,375,669
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	54,827,121	0	54,813,111	54,813,111	0	545,733	545,733	0	55,358,844	55,358,844	4,218,707	0	51,140,137	51,140,137	1,391,682	0	40,366,221	40,366,221
CLAIMS SECURED BY RESIDENTIAL PROPERTY	11,681,861	0	11,681,861	11,681,861	0	0	0	0	11,681,861	11,681,861	65,355	0	11,616,506	11,616,506	0	0	5,191,947	5,191,947
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	41,460,004	0	39,913,264	39,913,264	0	3,034,746	3,034,746	0	42,948,010	42,948,010	512,659	0	42,435,351	42,435,351	0	0	42,435,351	42,435,351
PAST DUE LOANS	14,818,696	0	8,651,218	8,651,218	0	0	0	0	8,651,218	8,651,218	969,531	0	7,681,687	7,681,687	67,317	0	9,724,593	9,724,593
HIGHER-RISK CATEGORIES	1,845,712	0	1,845,712	1,845,712	0	985,495	985,495	0	2,831,207	2,831,207	0	0	2,831,207	2,831,207	0	0	4,246,811	4,246,811
OTHER ASSETS	39,159,145	20,471,308	18,605,660	39,076,968	882	42,328	43,210	20,472,190	18,647,988	39,120,178	0	20,472,190	18,647,988	39,120,178	0	286,059	12,571,113	12,857,172
CLAIMS ON SECURITISED ASSETS	4,733,810	4,733,810	0	4,733,810	0	0	0	4,733,810	0	4,733,810	0	4,733,810	0	4,733,810	0	1,361,943	0	1,361,943
CREDIT DERIVATIVES (Banks Selling protection)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Grand Total</b>	<b>692,267,185</b>	<b>347,449,565</b>	<b>336,624,243</b>	<b>684,073,808</b>	<b>49,202,891</b>	<b>66,695,900</b>	<b>115,898,792</b>	<b>396,652,456</b>	<b>403,320,143</b>	<b>799,972,599</b>	<b>91,956,558</b>	<b>328,073,456</b>	<b>379,942,585</b>	<b>708,016,041</b>	<b>5,199,989</b>	<b>69,145,491</b>	<b>352,521,088</b>	<b>421,666,579</b>

## 6. Credit Risk Mitigation - Disclosures for Standardized Approach

All numbers in AED 000s

Quantitative Disclosures		Exposures	Risk Weighted Assets
	<b>Gross Exposure prior to Credit Risk Mitigation</b>	799,972,598	
Less:	Exposure covered by on-balance sheet netting	6,199,147	
Less:	Exposures covered by Eligible Financial Collateral	85,757,411	
Less:	Exposures covered by Guarantees	9,101,818	3,901,830
Less:	Exposures covered by Credit Derivatives	-	
	<b>Net Exposures after Credit Risk Mitigation</b>	<b>702,816,051</b>	<b>421,666,579</b>

7. Counterparty Credit Risk Exposure

All numbers in AED 000s

Asset Class	FX and Gold			IRS			Equities			Precious Metal except Gold			Commodities			TRS			CDS		
	Gross	MTM	Gross Credit Exposure	Gross	MTM	Gross Credit Exposure	Gross	MTM	Gross Credit Exposure	Gross	MTM	Gross Credit Exposure	Gross	MTM	Gross Credit Exposure	Gross	MTM	Gross Credit Exposure	Gross	MTM	Gross Credit Exposure
Claims on Sovereigns	678,343	109	50,876	-	162,899	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	165,778	19,785	2,487	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on Multilateral development banks	133,111	-	1,331	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on Banks	340,737,002	755,319	5,549,565	432,215,824	1,363,403	1,796,294	14,356	-	861	-	-	-	1,851,079	7,534	191,251	1,120,265	-	56,932	62,434	-	3,122
Claims on Securities Firms	142,974,296	53,747	3,415,888	507,012,051	214,132	3,413,678	-	-	0	-	-	-	771,456	15,793	78,257	1,280,693	-	83,442	-	-	-
Claims on Corporate	60,248,230	406,158	1,407,814	66,703,121	1,469,071	610,398	-	-	-	-	-	-	1,874,736	203,307	193,919	-	-	-	-	-	-
Regulatory & Other Retail Exposure	-	-	-	45,913	-	138	220	2	13	-	-	-	107,839	-	11,291	-	-	-	-	-	-
Residential Retail Exposure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial Real Estate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Past Due Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
High Risk Category	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	2,202,701	-	36,719	559,928	-	2,706	-	-	-	-	-	-	18,365	70	1,983	-	-	-	-	-	-
Claims on Securitised Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit Derivatives (Banks selling protection)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Grand Total</b>	<b>546,973,682</b>	<b>1,215,332</b>	<b>10,462,193</b>	<b>1,006,702,614</b>	<b>3,229,290</b>	<b>5,825,700</b>	<b>14,576</b>	<b>2</b>	<b>875</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,623,475</b>	<b>226,705</b>	<b>476,701</b>	<b>2,400,958</b>	<b>-</b>	<b>140,374</b>	<b>62,434</b>	<b>-</b>	<b>3,122</b>

## 8. Market Risk - Capital Requirements under Standardized Approach

All numbers in AED 000s

Market Risk	Amount
Interest rate risk	2,013,604
Equity position risk	45,351
Foreign exchange risk	852,212
Commodity risk	38,914
Options Risk	416,497
<b>Total Capital Requirement</b>	<b>3,366,577</b>



## 9. Equity Position in the Banking Book

All numbers in AED 000s

As at 31 December 2017, the bank's total equity investment portfolio in the banking book amounted to AED 2,400 M, 19.3% of which represents quoted investments. For details of the accounting policies and valuation methodology, please refer to Note 2 to the consolidated financial statements under 'Significant Accounting Policies'. Details of these investments are reported in Note 12 to the consolidated financial statements under "Non trading Investments".

### b) Quantitative Disclosures

#### 1. QUANTITATIVE DETAILS OF EQUITY POSITION:

Type	Current Year		Previous Year	
	Publicly Traded	Privately Held	Publicly Traded	Privately Held
Equities	450,356	234,364	172,526	180,901
Collective investment schemes	11,743	1,703,524	31,223	1,577,985
Any other investment	0	0	0	0
<b>Total</b>	<b>462,099</b>	<b>1,937,888</b>	<b>203,749</b>	<b>1,758,886</b>

#### 2. REALISED, UNREALISED AND LATENT REVALUATION GAINS (LOSES) DURING THE YEAR:

Gains (Losses)	Amount
Realised gains (losses) from sales and liquidations	196,684
*Unrealised gains (losses) recognised in the balance sheet but not through profit and loss account	-19,267
**Latent revaluation gains (losses) for investment recorded at cost but not recognised in balance sheet or profit and loss account	
<b>Total</b>	<b>177,417</b>

#### 3. ITEMS IN (2) ABOVE INCLUDED IN TIER 1/TIER 2 CAPITAL:

Tier Capital	Amount
Amount included in Tier I capital	196,684
Amount included in Tier II capital	-8,670
<b>Total</b>	<b>188,014</b>

#### 4. CAPITAL REQUIREMENTS BY EQUITY GROUPINGS:

Grouping	Amount
Strategic investments	11,801
Available for sale	394,409
Held for trading	139,872
<b>Total capital requirement</b>	<b>546,082</b>

## 10. Interest Rate Risk in the Banking Book

All numbers in AED 000s

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of interest rate sensitive assets and interest rate sensitive liabilities and off balance sheet instruments that mature or reprice in a given period. Interest rate risks in the Bank are managed under a framework comprising Risk Governance and Risk Appetite. The Risk Governance includes the ALM policy (approved by the Board) within the ambit of ERM policy framework. The Bank uses a combination of duration gap analysis and scenario analysis pertaining to impact of changes in interest rates on Net Interest Income and Value of Equity to manage these risks which are reviewed and monitored by ALCO.

Interest rate risk is also assessed by measuring the impact of defined movements in interest yield curves on the Bank's net interest income. The following impact on the net interest income and regulatory capital is for the year in case of an immediate and permanent movement in interest yield curves.

Shift in Yield Curves	Net Interest Income	Regulatory Capital
+200 basis point	2,189,020	1,979,561
- 200 basis point	(2,189,020)	(1,979,561)

The above interest rate sensitivities are illustrative only and adopt simplified scenarios. The sensitivities do not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.