In the Name of Allah
The most Gracious and Merciful

Emirates Islamic Bank
(Public Joint Stock Company)

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GROUP CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018

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Building a better working world

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF EMIRATES ISLAMIC BANK PJSC

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Emirates Islamic Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated interim statement of financial position as at 30 June 2018 and the related consolidated interim statements of income and comprehensive income for the three month and six month periods then ended and consolidated interim statement of cash flows and changes in equity for the six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Signed by:
Joseph Murphy
Partner
Registration No. 492

17 July 2018
Dubai, United Arab Emirates

EMIRATES ISLAMIC BANK PJSC
GROUP CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Notes	(Unaudited) 30 June 2018 AED '000	(Audited) 31 December 2017 AED '000
ASSETS			
Cash and balances with U.A.E. Central Bank	4	14,110,249	13,258,584
Due from banks	5	5,298,453	11,182,044
Investments securities	6	2,661,433	1,808,550
Financing and investing receivables	7	34,923,994	33,835,397
Investment properties		423,752	462,942
Customer acceptances		662,721	617,349
Property and equipment		206,243	213,296
Other assets		414,478	503,202
TOTAL ASSETS		**58,701,323**	**61,881,364**
LIABILITIES			
Due to banks	8	3,307,842	5,286,185
Customers' accounts	9	42,724,256	41,822,450
Sukuk financing instruments	10	3,687,780	5,526,649
Customer acceptances		662,721	617,349
Payables and other liabilities		1,497,740	1,267,364
Zakat payable		-	52,181
TOTAL LIABILITIES		**51,880,339**	**54,572,178**
EQUITY			
Share capital	11	5,430,422	5,430,422
Statutory reserve		410,186	410,186
General reserve		315,965	315,965
Other reserve		4,403	4,403
Fair value reserve		(35,069)	(7,405)
Retained earnings		695,077	1,155,615
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP		**6,820,984**	**7,309,186**
TOTAL LIABILITIES AND EQUITY		**58,701,323**	**61,881,364**

Chairman **Chief Executive Officer**

The attached notes 1 to 19 form an integral part of these Group condensed consolidated interim financial statements.

The independent auditors' report on review of the Group condensed consolidated interim financial statements is set out on page 1.

EMIRATES ISLAMIC BANK PJSC
GROUP CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018

		For the three months period ended 30 June		For the six months period ended 30 June	
		2018	**2017**	**2018**	**2017**
	Notes	**AED'000**	**AED'000**	**AED'000**	**AED'000**
INCOME					
Income from financing and investing activities		516,510	516,373	1,012,831	1,054,789
Customers' share of profit and distribution to sukuk holders		(119,476)	(122,608)	(240,625)	(245,880)
NET FINANCING INCOME		**397,034**	**393,765**	**772,206**	**808,909**
Fees and commissions income		131,931	125,188	260,064	240,234
Income from investment securities		13,525	12,571	40,106	54,072
Other operating income		84,755	52,092	144,723	81,985
TOTAL OPERATING INCOME		**627,245**	**583,616**	**1,217,099**	**1,185,200**
OPERATING EXPENSES					
Personnel expenses		(160,542)	(136,404)	(315,953)	(274,879)
General and administrative expenses		(118,143)	(96,749)	(230,525)	(191,993)
Depreciation of property and equipment		(10,939)	(9,822)	(22,187)	(21,690)
TOTAL OPERATING EXPENSES		**(289,624)**	**(242,975)**	**(568,665)**	**(488,562)**
NET OPERATING PROFIT BEFORE ALLOWANCES FOR IMPAIRMENT		**337,621**	**340,641**	**648,434**	**696,638**
Allowances for impairment on financial assets, net of recoveries	12	(40,902)	(174,965)	(123,440)	(309,850)
Allowances for impairment on non-financial assets	12	(20,000)	-	(39,701)	-
		(60,902)	**(174,965)**	**(163,141)**	**(309,850)**
NET PROFIT FOR THE PERIOD		**276,719**	**165,676**	**485,293**	**386,788**
Earnings per share (AED)	13	**0.051**	**0.031**	**0.089**	**0.071**

The attached notes 1 to 19 form an integral part of these Group condensed consolidated interim financial statements.

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EMIRATES ISLAMIC BANK PJSC
GROUP CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018

	For the three months period ended 30 June		For the six months period ended 30 June	
	2018	**2017**	**2018**	**2017**
	AED'000	**AED'000**	**AED'000**	**AED'000**
NET PROFIT FOR THE PERIOD	**276,719**	**165,676**	**485,293**	**386,788**
Other comprehensive income				
Items that may be reclassified subsequently to Income statement				
Cumulative changes in fair value of investments				
- Net change in fair value	(13,852)	3,076	(27,767)	10,336
- Net amount transferred to income statement	(1,795)	(615)	(3,363)	(20,975)
Total	**(15,647)**	**2,461**	**(31,130)**	**(10,639)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**261,072**	**168,137**	**454,163**	**376,149**

The attached notes 1 to 19 form an integral part of these Group condensed consolidated interim financial statements.

The independent auditors' report on review of the Group condensed consolidated interim financial statements is set out on page 1.

		For the six months period ended 30 June	
		2018	**2017**
OPERATING ACTIVITIES	Note	**AED '000**	**AED '000**
Net profit for the period		485,293	386,788
Adjustments:			
Allowances for impairment on financing and investing receivables	12	208,387	301,733
Allowances for impairment on investments	12	3,933	41,300
Allowances for impairment on due from banks, net	12	(4,362)	-
Allowance for impairment on investment properties, net	12	39,701	-
Dividend income		(7,030)	(6,500)
(Gain) / loss on sale of investments		(3,363)	(32,247)
Depreciation on investment properties		6,120	6,010
Depreciation on property and equipment		22,187	21,690
Operating profit before changes in operating assets and liabilities		**750,866**	**718,774**
Changes in balances with UAE Central Bank		(5,482,974)	(1,571,386)
Changes in due from banks		1,873,972	1,878,246
Changes in financing and investing receivables		(2,194,342)	715,548
Changes in other assets		88,724	153,205
Changes in customers' accounts		901,806	677,581
Changes in due to banks		77,768	(40,857)
Changes in other liabilities		227,757	(94,530)
Zakat paid		(52,181)	(35,139)
Net cash (used in) / generated from operating activities		**(3,808,604)**	**2,401,442**
INVESTING ACTIVITIES			
Purchase of investment securities		(1,996,357)	(305,050)
Proceeds from sale of investment securities		1,071,235	248,967
Dividend income received		7,030	6,500
Additions in investment properties		(6,631)	(133)
Changes in property and equipment		(15,134)	(21,622)
Net cash used in investing activities		**(939,857)**	**(71,338)**
FINANCING ACTIVITIES			
Repayment of Sukuk financing	10	(1,836,250)	(1,838,869)
Net cash used in financing activities		**(1,836,250)**	**(1,838,869)**
Net change in cash and cash equivalents		**(6,584,711)**	**491,235**
Cash and cash equivalents at the beginning of the period		11,481,457	6,822,904
Cash and cash equivalents at the end of the period	14	**4,896,746**	**7,314,139**

The attached notes 1 to 19 form an integral part of these Group condensed consolidated interim financial statements.

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	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP						
	Share capital AED '000	**Statutory reserve AED '000**	**General reserve AED '000**	**Other reserve AED '000**	**Fair value reserve AED '000**	**Retained earnings AED '000**	**Total AED '000**
As at 1 January 2018	5,430,422	410,186	315,965	4,403	(7,405)	1,155,615	7,309,186
Impact of adopting IFRS 9 at 1 January 2018 (Refer note 3.3)	-	-	-	-	3,466	(945,831)	(942,365)
Reinstated balance at 1 January 2018	**5,430,422**	**410,186**	**315,965**	**4,403**	**(3,939)**	**209,784**	**6,366,821**
Net profit for the period	-	-	-	-	-	485,293	485,293
Other comprehensive income for the period	-	-	-	-	(31,130)	-	(31,130)
Total comprehensive income for the period					(31,130)	485,293	454,163
As at 30 June 2018	**5,430,422**	**410,186**	**315,965**	**4,403**	**(35,069)**	**695,077**	**6,820,984**
As at 1 January 2017	5,430,422	339,986	245,765	-	19,404	653,198	6,688,775
Net profit for the period	-	-	-	-	-	386,788	386,788
Other comprehensive income for the period	-	-	-	-	(10,639)	-	(10,639)
Total comprehensive income for the period	-	-	-	-	(10,639)	386,788	376,149
As at 30 June 2017	**5,430,422**	**339,986**	**245,765**	**-**	**8,765**	**1,039,986**	**7,064,924**

The attached notes 1 to 19 form an integral part of these Group condensed consolidated interim financial statements.
The independent auditors’ report on review of the Group condensed consolidated interim financial statements is set out on page 1.

1 LEGAL STATUS AND ACTIVITIES

Emirates Islamic Bank PJSC (formerly Middle East Bank) (the "**Bank**") was incorporated by a decree of His Highness the Ruler of Dubai as a conventional Bank with a limited liability in the Emirate of Dubai on 3rd of October 1975. The Bank was reregistered as a Public Joint Stock Company in July 1995 and is regulated by the Central Bank of United Arab Emirates. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984.

At an extraordinary general meeting held on 10th of March 2004, a resolution was passed to transform the Bank's activities to be in full compliance with the Sharia rules and principles. The entire process was completed on 9th of October 2004 (the "Transformation Date") when the Bank obtained the UAE Central Bank and other UAE authorities' approvals.

The Bank is a subsidiary of Emirates NBD Bank PJSC, Dubai (the "Group Holding Company"). The ultimate parent company of the Group Holding Company is Investment Corporation of Dubai (the "Ultimate Parent Company"), a company in which the Government of Dubai is the major shareholder.

The Bank is listed in the Dubai Financial Market (TICKER: "EIB"). The Bank's website is http://www.emiratesislamic.ae. In addition to its head office in Dubai, the Bank operates through 60 branches in the UAE. The Group condensed consolidated interim financial statements comprise financial statements of the Bank and its following subsidiaries (together referred to as "the Group").

	Date of incorporation & country	Principal activity	Ownership %	
			30 June 2018	31 December 2017
Emirates Islamic Financial Brokerage Co. LLC	26 April 2006, UAE	Financial brokerage services	100%	100%
EIB Sukuk Company Limited	6 June 2007, Cayman Islands	Special Purpose Entity	100%	100%
EI Funding Limited	15 May 2014, Cayman Islands	Special Purpose Entity	100%	100%

The Bank provides full commercial and banking services and offers a variety of products through Islamic financing and investing instruments in accordance with Islamic Sharia.

The Bank's registered office address is P.O. Box 6564, Dubai, United Arab Emirates.

2 BASIS OF PREPERATION

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The accounting policies applied by the Group in the preparation of the condensed consolidated interim financial statements are consistent with those applied by the Group in the annual consolidated financial statements for the year ended 31 December 2017, except for changes in accounting policies explained in Note 3.

These condensed consolidated interim financial statements do not include all the information and disclosures required for full annual consolidated financial statements prepared in accordance with International Financial Reporting Standards and should be read in conjunction with the Group's financial statements as at and for the year ended 31 December 2017. In addition, results for the six months period ended 30 June 2018 are not necessarily indicative of the results that may be expected for the full financial year ending 31 December 2018.

In preparing these condensed consolidated interim financial statements, significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation were the same as those that were applied to the consolidated financial statements as at and for the year ended 31 December 2017 except for the new judgements and estimates explained in Note 3.

3. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

3.1. Changes in Accounting Policies

The Group has consistently applied the accounting policies as applied by the Group in the annual consolidated financial statements for the year ended 31 December 2017, except the following accounting policies which are applicable from 1 January 2018:

a) IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represents a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

(i) Classification of financial assets and liabilities

Financial assets

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL).

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

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

A Sukuk instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS (CONTINUED)

3.1 Changes in accounting policies (continued)

(a) IFRS 9 Financial Instruments (continued)

(i) Classification of financial assets and liabilities (continued)

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of profit rate.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Derecognition

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

3 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS (CONTINUED)

3.1 Changes in accounting policies (continued)

(a) IFRS 9 Financial Instruments (continued)

(ii) **Impairment**

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are sukuk instruments;
- financial guarantee contracts issued; and
- financing commitments issued.
- No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition, in which case 12-month ECL is measured.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

Measurement of ECL

ECL are probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn financing commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

3 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS (CONTINUED)

3.1 Changes in accounting policies (continued)

(a) IFRS 9 Financial Instruments (continued)

(ii) **Impairment (continued)**

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and sukuk financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a financing or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Write-off

Financing and investing receivables are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(iii) Financial guarantees and commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified financing or fails to make payment when due, in accordance with the terms of a sukuk instrument. The financial guarantee liability is carried at amortised cost when payment under the contract has become probable.

'Financing commitments' are firm irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or irrevocable commitments to provide credit are initially measured at fair value and their initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

(iv) Financing and investing receivables

'Financing and investing receivables' captions in the statement of financial position include financing and investing receivables measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit rate method.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a financing receivable or due from banks, and the underlying asset is not recognised in the Group's financial statements.

3 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS (CONTINUED)

3.1 Changes in accounting policies (continued)

(a) IFRS 9 Financial Instruments (continued)

(v) Investments securities

The investments securities' caption in the statement of financial position includes:

- Sukuk investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit rate method;
- Equity investment securities measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- Sukuk securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For sukuk securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

- Profit revenue using the profit rate method
- ECL and reversals, and
- Foreign exchange gains and losses.

When financing receivables measured at FVOCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

(vi) Derivatives and hedging

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation. As a result the 80-125% range under IAS 39 is replaced by an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

IFRS 9 also introduces rebalancing of hedging relationships, whereby, if a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio under IFRS 9, but the risk management objective for that designated hedging relationship remains the same, the Bank shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in profit or loss. Gains and losses are recorded in Income from trading activities except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income

The group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and are thus treated as continuing hedges.

3 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS (CONTINUED)

3.1 Changes in accounting policies (continued)

(a) IFRS 9 Financial Instruments (continued)

(vii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore not comparable to the information presented for period under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
    - The determination of the business model within which a financial asset is held.
    - The designation and revocation or previous designations of certain financial assets and financial liabilities as measured at FVTPL.
    - The designation of certain investments in equity instruments not held for trading as at FVOCI.

Further information and details on the changes and implications resulting from the adoption of IFRS 9 are disclosed in Note 3.3 and Note 17.

(b) IFRS 7 Financial Instruments: Disclosures

IFRS 7 Financial Instruments: Disclosures, which was updated to reflect the differences between IFRS 9 and IAS 39, was also adopted by the Bank together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 3.3, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 3.3 and Note 17.

Reconciliations from opening to closing ECL allowances are presented in Note 17.

IFRS 7 also requires additional disclosures for hedge accounting for entities opting to continue to apply the hedge accounting requirements of IAS 39.

(c) IFRS 15 Revenue from contracts with customers

This standard on revenue recognition replaces IAS 11, ‘Construction contracts’, and IAS 18,’Revenue’ and related interpretations.

IFRS 15 is more prescriptive, provides detailed guidance on revenue recognition and reduces the use of judgment in applying revenue recognition policies and practices as compared to the replaced IFRS and related interpretations.

Revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.

The core principle of IFRS 15 is that an entity recognizes revenue as it transfers the promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 also includes a comprehensive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.

The Group has assessed that the impact of IFRS 15 is not material impact on the condensed consolidated interim financial statements of the Group as at the reporting date.

3 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS (CONTINUED)

3.2 Changes in estimates and judgements

The Group has consistently applied the estimates and judgements as applied by the Group in the annual consolidated financial statements for the year ended 31 December 2017, except the following estimates and judgements which are applicable from 1 January 2018.

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

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

Changes to judgements made in applying accounting policies that have most significant effects on the amounts recognized in the condensed consolidated interim financial statements of the period ended 31 March 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.

- Calculation of expected credit loss: changes to the assumptions and estimation uncertainties that have a significant impact on expected credit losses for the period ended 30 June 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are:

<u>Assessment of Significant Increase in Credit Risk</u>

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes.

The Group's assessment of significant increases in credit risk is being be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. The Group has established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition.
2. Additional qualitative reviews are being performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
3. IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.
4. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

<u>Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios</u>

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

3 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS (CONTINUED)

3.2 Changes in estimates and judgements (continued)

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology (continued)

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

PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

The Group’s estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

The Group’s base case scenario will be based on macroeconomic forecasts published by our internal economics group. Upside and downside scenarios will be set relative to the Group’s base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant.

Scenarios will be probability-weighted according to the Group’s best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected Life

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

Governance

In addition to the existing risk management framework, the Group has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management and Economics and will be responsible for reviewing and approving key inputs and assumptions used in the Group’s expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in the Group’s financial statements.

3 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS (CONTINUED)

3.3 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

Except for the financial statement captions listed in the table below, there have been no changes in the carrying amounts of assets and liabilities on application of IFRS 9 as at 1 January 2018.

	Classification under IAS 39 (31 December 2017)					**Classification under IFRS 9 (1 January 2018)**			
	Financing receivables AED '000	**Held to maturity AED '000**	**Available for sale AED '000**	**FVTPL AED '000**	**Balance AED '000**	**Amortized cost AED '000**	**FVOCI AED '000**	**FVTPL AED '000**	**Balance AED '000**
<u>Financial assets</u>									
Cash and deposits with Central Bank	13,258,584	-	-	-	**13,258,584**	13,258,584	-	-	**13,258,584**
Due from banks	11,182,044	-	-	-	**11,182,044**	11,177,577	-	-	**11,177,577**
Investments securities:									
Measured at amortised cost	-	-	621,240	-	**621,240**	616,573	-	-	**616,573**
Measured at FVOCI – sukuk instruments	-	9,181	628,723	-	**637,904**	-	631,936	-	631,936
Measured at FVOCI – equity instruments	-	-	549,515	-	**549,515**	-	-	519,501	**519,501**
Measured at FVTPL – Sukuk	-	(109)	-	-	**(109)**	-	-	-	**-**
Financing and investing receivables	33,835,397	-	-	-	**33,835,397**	32,938,039	-	-	**32,938,039**

3 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS (CONTINUED)

3.3 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

The following table analyses the impact, net of tax, on reserves and retained earnings arising as a result of the transition to IFRS 9. The impact relates to the fair value reserve and retained earnings. There is no impact on other components of equity.

Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	(7,405)
Reclassification of investment securities (sukuk) from available-for-sale to amortized cost	3,151
Reclassification of investment securities (sukuk) from HTM to FVOCI	(5,968)
Reclassification of investment securities (sukuk and equity) from available-for-sale to FVTPL	5,599
Recognition of expected credit losses under IFRS 9 for sukuk financial assets at FVOCI	684
Opening balance under IFRS 9 (1 January 2018)	**(3,939)**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	1,155,615
Reclassification of investment securities (sukuk and equity) from available-for-sale to FVTPL	(35,504)
Recognition of expected credit losses under IFRS 9 (including lease receivables, financing commitments and financial guarantee contracts	(910,327)
Opening balance under IFRS 9 (1 January 2018)	**209,784**

The following table reconciles the closing balance of financial assets under IAS 39 to the opening balance of financial assets under IFRS 9 on 1 January 2018.

	31 December 2017 (IAS 39)	Remeasurement/Reclassification of financial assets	Remeasurement of impairment	1 January 2018 (IFRS 9)
Cash and deposits with Central Bank	13,258,584	-	-	13,258,584
Due from banks	11,182,044	-	(4,467)	11,177,577
Investment securities:				
Equity securities AFS / FVTPL	549,515	(30,014)	-	519,501
Sukuk investments at AFS / FVOCI	628,723	684	(684)	628,723
Sukuk investments at HTM / FVOCI	9,181	(5,968)	-	3,213
Sukuk investments at HTM / FVTPL	(109)	109	-	-
Sukuk investments at AFS/ Amortised Cost	621,240	3,151	(7,818)	616,573
Financing and investing receivables	33,835,397	-	(897,358)	32,938,039
Total	**60,084,575**	**(32,038)**	**(910,327)**	**59,142,210**

4 CASH AND BALANCES WITH UAE CENTRAL BANK

	(Unaudited) 30 June 2018 AED '000	(Audited) 31 December 2017 AED '000
Cash in hand	498,231	367,632
Balances with UAE Central Bank :		
Current accounts	1,746,604	1,758,279
Reserve requirements	4,276,734	4,054,455
Murabaha	7,588,680	7,078,218
	14,110,249	**13,258,584**

The reserve requirements which are kept with the Central Bank of the UAE in AED and US Dollar are not available for use in the Group's day to day operations and cannot be withdrawn without the Central Bank of the UAE's approval. The level of reserves required changes every month in accordance with the Central Bank of the UAE's directives.

5 DUE FROM BANKS

	(Unaudited) 30 June 2018 AED '000	(Audited) 31 December 2017 AED '000
Due from local banks		
Current accounts	71	68
Interbank placements with other banks	2,091,446	2,440,338
Murabaha with Group Holding Company	1,201,094	3,884,569
Receivables from Dubai Bank PJSC	-	1,281,607
	3,292,611	**7,606,582**
Due from foreign banks		
Interbank placements	73,450	55,088
Current accounts	1,932,498	3,520,374
	2,005,948	**3,575,462**
Less : Allowances for impairment	(106)	-
	5,298,453	**11,182,044**

6 INVESTMENT SECURITIES

30 June 2018	Domestic* AED '000	Regional** AED '000	International*** AED '000	(Unaudited) Total AED '000
DESIGNATED AS AT FVTPL				
Equity	90,808	194,860	5,986	291,654
Others	498	69,306	131,014	200,818
	91,306	**264,166**	**137,000**	**492,472**
MEASURED AT AMORTISED COST				
Government Sukuk	68,932	128,538	183,625	381,095
Corporate Sukuk	-	341,443	-	341,443
	68,932	**469,981**	**183,625**	**722,538**
MEASURED AT FVOCI – SUKUK INSTRUMENTS				
Government Sukuk	-	-	58,698	58,698
Corporate Sukuk	1,195,166	173,829	31,166	1,400,161
	1,195,166	**173,829**	**89,864**	**1,458,859**
Less: Allowances for impairment				(12,436)
Net Investment securities				**2,661,433**

31 December 2017	Domestic AED '000	Regional AED '000	International AED '000	(Audited) Total AED '000
HELD TO MATURITY				
Corporate sukuk		9,072	-	9,072
	-	**9,072**	**-**	**9,072**
AVAILABLE-FOR-SALE				
Government sukuk	64,142	128,064	62,033	254,239
Corporate sukuk	372,261	303,322	320,141	995,724
Equity	102,000	278,875	8,330	389,205
Others	-	46,413	113,897	160,310
	538,403	**756,674**	**504,401**	**1,799,478**
Net Investment securities	**538,403**	**765,746**	**504,401**	**1,808,550**

The difference between period end fair value and amortized cost of investment reclassified on transition is insignificant.

The Group does not have any investment in Abraaj Group.

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

7 FINANCING AND INVESTING RECIEVABLES

	(Unaudited) 30 June 2018 AED '000	(Audited) 31 December 2017 AED '000
Murabaha	24,788,694	22,934,212
Ijarah	12,478,066	13,178,245
Istisna'a	1,970,890	1,897,264
Financing wakala	364,329	244,467
Mudarabah	121,647	134,218
Credit card receivables	1,280,642	1,208,251
Others	139,753	153,523
	41,144,021	39,750,180
Less: Deferred income	(2,221,927)	(2,369,625)
Less: Allowances for impairment (Note 17)	(3,998,100)	(3,545,158)
	34,923,994	**33,835,397**
Total of impaired financing and investing receivables	**3,166,323**	**3,844,070**

By Segment :

Retail banking	21,131,774	20,769,123
Corporate banking	13,792,220	13,066,274
	34,923,994	**33,835,397**

Analysis by economic activity		
Management of companies and enterprises	217,486	185,477
Manufacturing	1,440,573	1,259,863
Hotels and Restaurants	69,834	70,689
Construction	944,122	1,103,406
Trade	5,955,222	5,361,620
Transportation and communication	287,633	327,487
Services	1,054,584	1,118,480
Sovereign	451,583	103,968
Personal	23,427,985	22,574,864
Real estates	4,522,194	4,994,914
Financial institutions	1,509,840	1,264,739
Others	1,262,965	1,384,673
Total	41,144,021	39,750,180
Less: Deferred income	(2,221,927)	(2,369,625)
Less: Allowances for impairment	(3,998,100)	(3,545,158)
Net Carrying Value	**34,923,994**	**33,835,397**

The Group does not have any exposure in Abraaj Group.

8 DUE TO BANKS

	(Unaudited) 30 June 2018 AED '000	(Audited) 31 December 2017 AED '000
Current accounts	13,774	17,470
Overdrafts	2,518	2,148
Interbank obligations – Other banks	1,463,171	457,527
Wakala deposits from Group Holding Company	1,363,077	3,097,589
Other balances from Group Holding Company & its subsidiaries	465,302	1,711,451
	3,307,842	**5,286,185**
Due to banks are concentrated as follows:		
Due to local banks	2,829,089	5,065,745
Due to foreign banks	478,753	220,440
	3,307,842	**5,286,185**

9 CUSTOMER ACCOUNTS

	(Unaudited) 30 June 2018 AED '000	(Audited) 31 December 2017 AED '000
Current accounts	19,080,367	16,740,621
Saving accounts	10,190,008	10,972,126
Investment accounts	3,507,102	3,631,069
Wakala accounts	9,527,760	9,897,583
Margins	419,019	581,051
	42,724,256	**41,822,450**
By Segment:		
Retail banking	37,037,874	34,586,532
Corporate banking	5,686,382	7,235,918
	42,724,256	**41,822,450**

10 ASSET SECURITIZATION

a) During 2012, the Group issued sukuk amounting to AED 3.7 billion. Further sukuk issuance of AED 3.7 billion was made during the year 2016 to raise US Dollar denominated medium term finance via a Sharia'a compliant sukuk financing arrangement. As at June 2018, the total outstanding sukuk payable is AED 3.7 billion.

Following are the details of all the sukuk financing arrangement in issue.

Amount (USD)	Listing	Profit rate (%)	Payment basis	Maturity
750,000,000	Irish Stock Exchange & Nasdaq	3.542	Semi annual	May 2021
250,000,000	Irish Stock Exchange & Nasdaq	3.542	Semi annual	May 2021

The Bank transferred certain identified Ijara and Murabaha assets totaling to AED 3.7 billion (the "co-owned assets") to its subsidiary, EIB Sukuk company limited – (the "Issuer"), a special purpose vehicle formed for the issuance of these sukuk. This medium term finance is carried at amortised cost.

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

10 ASSET SECURITIZATION (CONTINUED)

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

Following is the movement in Sukuk payable:

	(Unaudited) 30 June 2018 AED '000	(Audited) 31 December 2017 AED '000
Balance as at 1 January	5,526,649	7,368,138
Sukuks matured	(1,836,250)	(1,836,250)
Premium amortization	(2,619)	(5,239)
Balance at end of the period / year	**3,687,780**	**5,526,649**

b) On 15 May 2015, EI Funding Limited (the “SPE”) was incorporated under Companies Law of Cayman Islands as a Special Purpose Entity. The principal activities of the company are to purchase portfolio of assets through issuance of notes. The securitization will result in a certificate pool that will be listed on the NASDAQ clearing system (off market) for private-purpose, over-the-counter dealing. The underlying Sharia structure has been approved by the Bank’s Sharia Supervisory Board.

The Bank has transferred part of its investment portfolio to EI Funding Limited (incorporated under Cayman Islands laws). However, the Group retains control over the transferred assets and hence the Group continues to recognize these assets as financing and the investment assets.

11 SHARE CAPITAL

	(Unaudited) 30 June 2018 AED '000	(Audited) 31 December 2017 AED '000
Authorized Share Capital		
10,000,000,000 (31 December 2017: 10,000,000,000) ordinary shares of AED 1 each (31 December 2017: AED 1 each)	**10,000,000**	**10,000,000**
Issued and fully paid up capital		
5,430,422,000 (31 December 2017: 5,430,422,000) ordinary shares of AED 1 each (31 December 2017: AED 1 each)	**5,430,422**	**5,430,422**

12 ALLOWANCES FOR IMPAIRMENT, NET OF RECOVERIES

	(Unaudited) For the six months period ended 30 June 2018 AED '000	2017 AED '000
Net impairment of due from banks	(4,362)	-
Net impairment of investment securities	3,933	41,300
Net impairment of non-financial assets (Investment properties)	39,701	-
Net impairment of financing and investing receivables	210,192	301,733
Net impairment of customer acceptances	(1,805)	-
Bad debt written off / (recovery) - net	(84,518)	(33,183)
Net impairment loss for the period	**163,141**	**309,850**

13 EARNING PER SHARE

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders (further adjusted for profit expense on tier I capital notes) of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares, if any.

	30 June 2018 AED '000	30 June 2017 AED '000
Net profit for the period	485,293	386,788
Weighted average no of shares outstanding during the period (000's)	5,430,422	5,430,422
Basic Earnings per share (AED)	**0.089**	**0.071**

14 CASH AND CASH EQUIVALENTS

	(Unaudited) 30 June 2018 AED '000	(Audited) 31 December 2017 AED '000
Cash in hand (note 4)	498,231	367,632
Current account with U.A.E Central Bank (note 4)	1,746,604	1,758,279
Murabaha with U.A.E Central Bank (maturing within 3 months)	200,571	4,950,804
Due from banks (maturing within 3 months)	5,298,560	9,308,073
Due to banks (maturing within 3 months)	(2,847,220)	(4,903,331)
	4,896,746	**11,481,457**

15 RELATED PARTY TRANSACTIONS

The Group is owned by ENBD (99.9%), which is partially owned by the Investment Corporation of Dubai (55.8%). The Government of Dubai is the major shareholder in Investment Corporation of Dubai.

Customer accounts from and financing to Government related entities other than those that have been individually disclosed amount to 17 % and 3.27 % (2017: 14 % and 2.4%) of the total customers' accounts and financing receivables of the Group, respectively.

These entities are independently run business entities, and all the financial dealings with the Group are on normal commercial terms.

15 RELATED PARTY TRANSACTIONS (CONTINUED)

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

Related party transactions are as follows:

	(Unaudited) 30 June 2018 AED '000	(Audited) 31 December 2017 AED '000
Financing receivables and investments		
Financing receivables - Ultimate Parent Company	-	75,620
Investment in Ultimate Parent Company	138,546	30,414
Financing receivables - Directors & affiliates	-	375
Financing receivables - Key management personnel & affiliates	30,667	22,095
Due to/ from Group holding company and subsidiaries		
Due from Group Holding Company & subsidiaries (note 5)	1,201,094	3,884,569
Due to Group Holding Company & subsidiaries (note 8)	1,828,379	(4,809,040)
Customer accounts and deposits		
Deposits from Ultimate Parent Company	(1,076,864)	(965,043)
Current and Investment accounts - Directors	(208)	(375)
Current and Investment accounts - Key management personnel & affiliates	(5,639)	(5,989)

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

No impairment losses have been recorded against balances outstanding during the period with key management personnel and their immediate relations at the period end.

	(Unaudited) 30 June 2018 AED '000	(Audited) 30 June 2017 AED '000
Group Consolidated Statement of Income		
Income from Group Holding Company	35,353	62,976
Key management compensation		
Key management personnel compensations	18,919	10,959
Key management personnel compensations - retirements benefits	312	66

16 FINANCIAL ASSETS AND LIABILITIES

Fair value of assets and liabilities

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

- Level 1: quoted prices (unadjusted) in principal markets for identified assets or liabilities.
- Level 2: valuation using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3: valuation using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

16 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

30 June 2018 (Unaudited)	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
Investment Securities				
Measured at FVOCI – sukuk instruments				
Government Sukuk	58,698	-	-	58,698
Corporate Sukuk	1,392,770	7,391	-	1,400,161
	1,451,468	**7,391**	**-**	**1,458,859**
Designated as at FVTPL				
Equity	13,000	-	278,654	291,654
Others	498	238	200,082	200,818
	13,498	**238**	**478,736**	**492,472**

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

During the period ended 30 June 2018 no financial assets measured at FVOCI were transferred from Level 1 to Level 2 or from Level 2 to Level 1

31 December 2017 (Audited)

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
Investment Securities				
AVAILABLE-FOR-SALE				
Corporate sukuk	-	-	160,309	160,309
Equity	33,148	-	356,057	389,205
Others	1,249,964	-	-	1,249,964
	1,283,112	**-**	**516,366**	**1,799,478**

16 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Reconciliation of financial assets, classified under level 3	(Unaudited) Designated at fair value through profit or loss
	AED '000
Balance as at 1 January 2018	516,366
Revaluation gain/(loss) recognized in profit or loss	(4,391)
Other adjustments	(33,239)
Balance as at 30 June 2018	**478,736**
	(Audited) Available for sale
Balance as at 1 January 2017	601,851
Settlements	(85,485)
Balance as at 31 December 2017	**516,366**

17 RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2017.

Amounts arising from ECL

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument as a result of the adoption of IFRS 9: Financial instruments.

Financing and investing receivables, undrawn irrevocable commitments and financial guarantee contracts issued

	Unaudited 30 June 2018		Unaudited 30 June 2017	
	AED '000	AED '000	AED '000	AED '000
	ECL	Specific	Collective	Total
Balance at 1 January (as per IAS 39)	3,545,158	2,653,028	845,276	3,498,304
Opening adjustments under IFRS 9	897,358	-	-	-
Balance at 1 January (Adjusted opening as per IFRS 9)	**4,442,516**	2,653,028	845,276	3,498,304
Allowances for impairment made during the period	667,137	594,533	-	594,533
Write back / recoveries made during the period	(458,750)	(155,675)	(137,125)	(292,800)
Transfers during the period	3,906			
Amounts written off during the period	(656,709)	(382,631)	-	(382,631)
Closing balance	**3,998,100**	**2,709,255**	**708,151**	**3,417,406**

18 OPERATING SEGMENTS

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

Corporate banking
Within this business segment, the Bank provides to corporate customers a range of products and services and accepts their deposits.

Consumer banking
Retail segment provides a wide range of products and services to individuals and small and medium enterprises and accepts their deposits.

Treasury
Treasury activities comprises of managing the Group's portfolio of investments, funds management, and Interbank treasury operations.

Others
Other operations of the Group include operations and support functions.

18 OPERATING SEGMENTS (CONTINUED)

	Corporate		Retail		Treasury		Support		Total	
	For the six months period ended 30 June		For the six months period ended 30 June		For the six months period ended 30 June		For the six months period ended 30 June		For the six months period ended 30 June	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Group condensed consolidated interim statement of income										
Income from financing and investing activities	186,976	225,192	692,664	780,833	10,616	(19,132)	122,575	83,423	1,012,831	1,070,316
Customers` share of profit and distribution to sukuk holders	(48,820)	(43,151)	(121,653)	(96,007)	(6,873)	(106,718)	(63,279)	(3)	(240,625)	(245,879)
Net Financing Income	**138,156**	**182,041**	**571,011**	**684,826**	**3,743**	**(125,850)**	**59,296**	**83,420**	**772,206**	**824,437**
Net Commission, fees & other income	81,522	97,523	319,303	242,290	140,495	71,846	(96,427)	(50,895)	444,893	360,764
Total Operating Income	**219,678**	**279,564**	**890,314**	**927,116**	**144,238**	**(54,004)**	**(37,131)**	**32,525**	**1,217,099**	**1,185,201**
General administrative and other expenses	(43,874)	(45,937)	(367,626)	(318,777)	(6,946)	(4,514)	(150,219)	(119,335)	(568,665)	(488,563)
Net operating income	**175,804**	**233,627**	**522,688**	**608,339**	**137,292**	**(58,518)**	**(187,350)**	**(86,810)**	**648,434**	**696,638**
Allowances for impairment, net of recoveries	7,655	80,721	(138,100)	(349,452)	421	(41,119)	(33,117)	-	(163,141)	(309,850)
NET PROFIT/ (LOSS) FOR THE PERIOD	**183,459**	**314,348**	**384,588**	**258,887**	**137,713**	**(99,637)**	**(220,467)**	**(86,810)**	**485,293**	**386,788**

18 OPERATING SEGMENTS (CONTINUED)

	Corporate		Retail		Treasury		Support		Total	
	(Unaudited) 30 June 2018 AED'000	(Audited) 31 December 2017 AED'000	(Unaudited) 30 June 2018 AED'000	(Audited) 31 December 2017 AED'000	(Unaudited) 30 June 2018 AED'000	(Audited) 31 December 2017 AED'000	(Unaudited) 30 June 2018 AED'000	(Audited) 31 December 2017 AED'000	(Unaudited) 30 June 2018 AED'000	(Audited) 31 December 2017 AED'000
Group consolidated statement of financial position										
Assets										
Segment assets	15,618,808	14,748,247	25,312,167	24,679,529	13,712,595	21,984,963	4,057,753	468,625	58,701,323	61,881,364
Liabilities and Equity										
Segment liabilities and equity	6,511,779	7,464,961	38,559,236	36,484,489	3,165,850	10,449,743	10,464,458	7,482,171	58,701,323	61,881,364

19 INTERIM MEASUREMENT

The nature of the Group's business is such that income earned or expenses incurred are in a manner, which is not impacted by any forms of seasonality. These condensed consolidated interim financial statements are prepared based on an accrual concept, which requires income and expenses for the period to be recorded as earned or incurred in the same period, not as received or paid throughout the period.