المصرف

AL MASRAF

Arab Bank for Investment & Foreign Trade المصرف العربي للاستثمار والتجارة الخارجية

Annual Report

2017

بسم الله الرحمن الرحيم

His Highness
Sheikh Khalifa bin Zayed Al Nahyan

President of the United Arab Emirates
Ruler of Abu Dhabi

His Highness
Sheikh Mohammed bin Rashid Al Maktoum

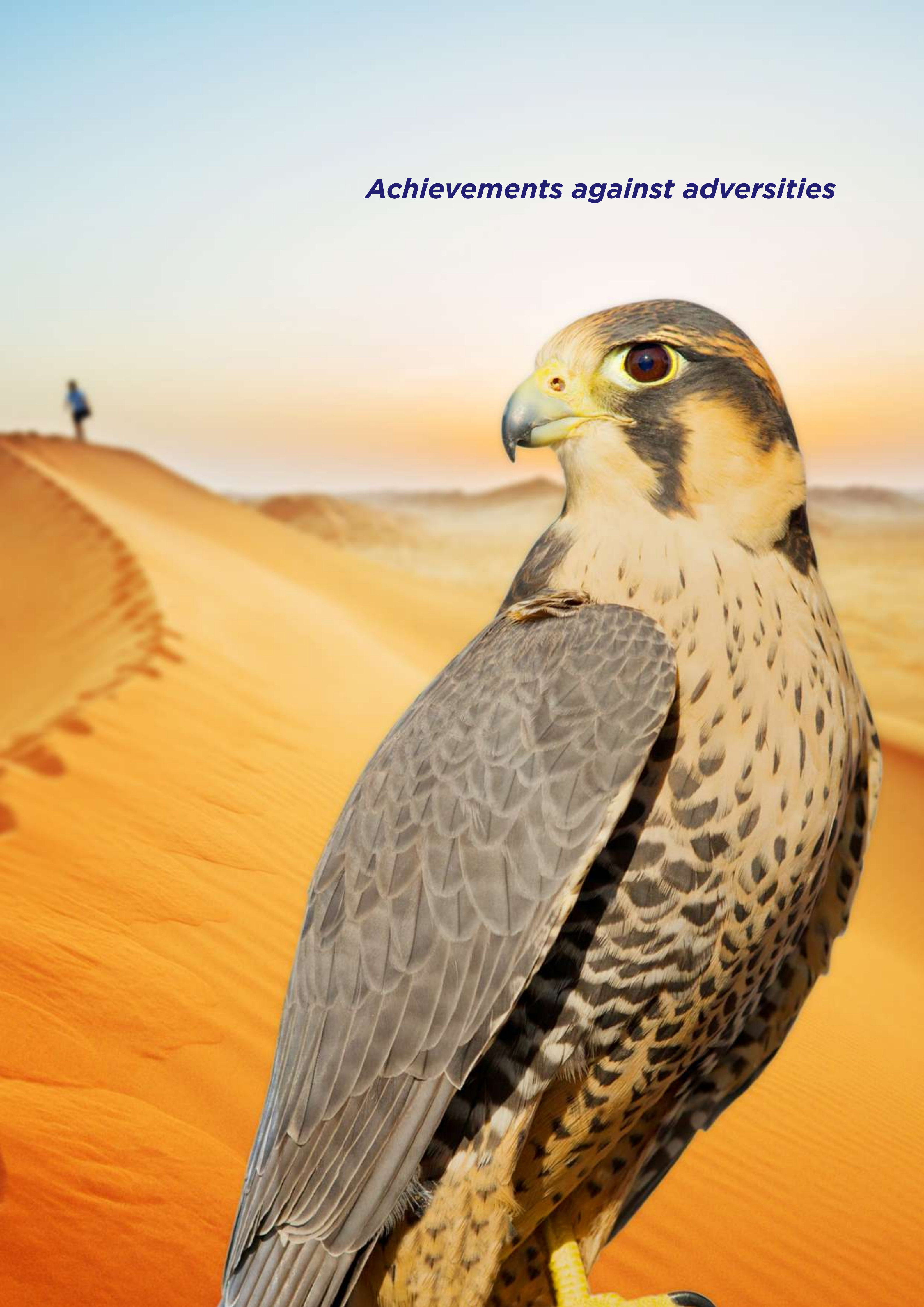
Vice President of the United Arab Emirates
Ruler of Dubai

Contents

VISION STATEMENT

To become an innovative and preferred financial partner for all banking services in the region.

Achievements against adversities



Joint efforts as a team

MISSION STATEMENT

- Become first choice bank for the customers with best-in-class products and services
- Be an employer of choice to attract, develop and retain high profile employees
- Benefit our investors with sustainable Return on Investment (ROI) and continuous success
- Contribute to society through active participation in the regional economic development initiatives

Values

- Customer Focus
- Organization Commitment
- Change Orientation
- Quality Focus
- Team Spirit

Achievements accompany progress

YEAR OF

ZAYED

2018

2018
The Year of Zayed

HH Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE, has named the year 2018 in the United Arab Emirates as the "Year of Zayed" to mark the centennial of the birth of the late Sheikh Zayed bin Sultan Al Nahyan, the founding father of the UAE. He died in 2004.

Zayed will witness a series of local and international events and initiatives commemorating the late leader Sheikh Zayed and glorifying his legacy and values and instilling in them efforts through collaborative and innovative initiatives.

In line with the values of the late Sheikh Zayed, the Zayed Public Initiative will be an opportunity to engage the public of all ages and nationalities in the UAE and abroad in a variety of programs.

The Founder's Office will coordinate the activities of "The Year of Zayed" in cooperation with the local committees of the year Zayed in each emirate.

BOARD OF DIRECTORS

Mohamed Mohd. Ben Yousef
Chairman

Mohamed Saif Al-Suwaidi
Deputy Chairman

Ahmed Saeed Bin Braik
Director

Mustapha Makhlouf
Director

Yaqoob Yousuf Hassan Janahi
Director

Amr Yaklaf Amr Al Hgag
Director

Zine-Eddin Bouzit
Director

Bashir Balkasm Matok
Director

CHAIRMAN'S MESSAGE

Mohamed Mohd. Ben Yousef
Chairman

On behalf of the Board of Directors, I am pleased to present the annual report and consolidated financial statements of Al Masraf for the year ended 31st December 2017.

Year 2017 was a year of significance for us as being the first year of our new medium term strategy for 2017-2021 We have set ourselves with an ambitious growth strategy to further strengthen our vision to become an innovative and preferred financial partner for all banking services in the Region.

With business transformation, technology, digitalization of our services and improving customer experience being at the heart of our strategy, we are aiming to be a lasting partner for our customers in providing all banking solutions and value added financial services supporting their business needs.

Year 2017 brought about significant and largely unexpected economic and political events.

Global economy continues to strengthen with Global output estimated at 3.7% as per International Monetary Fund – IMF latest report.

Growth forecasts for 2018 and 2019 have been revised upward to 3.9 percent with broad based growth in Europe, Asia and increased global growth momentum.

The agreement to limit oil production between OPEC and other participating states, improving global economic outlook and geopolitical tensions in the Middle East supported crude oil prices that stands at over US$ 60 per barrel. This increased price and stability is expected to support OPEC countries in improving fiscal state and encourage greater spending and boost GDP growth.

U.S. Federal Reserve interest rates expectations have moved up since the second half of 2017 and is the Fed is expected to continue to increase rates gradually over 2018 & 2019

All GCC economies recorded a sharp slowdown in 2016 that continued in 2017 amidst lower oil prices, public spending cuts, tightening liquidity and largely uncertain political climate resulting in increased volatility.

Whilst stronger activity and expectations of increasing global demand, coupled with oil supply restrictions, have helped commodity prices recover from their lows with oil prices becoming firmer as the year ended, we continue to be cautiously optimistic and positioning our business strategy based on emerging global economic environment trends and especially as investments rise ahead of Dubai's Expo 2020.

The UAE economy however was broadly resilient to the impact of the lower oil prices as it benefited from a relatively diversified economy, excellent infrastructure, political stability and robust investor confidence.

The U.A.E.'s gross domestic product is expected to expand 3.4 to 3.9% in 2018 as various estimates emerge from 1.3 % in 2017, largely on expectations on a broad-based growth, both Dubai & Abu Dhabi on the backdrop of firming oil prices and trade activity.

Introduction of Value Added Tax was a landmark event in the UAE and a significant shift in tax policy of the region. VAT will lead to greatly improve fiscal position of the country with increasing revenues as the administrative efficiencies improve overtime. Initial estimates indicate a five per cent value added tax is expected to boost state revenues by Dh12 billion in 2018.

The UAE's banking sector grew at a relatively measured pace with total banking assets exceeding AED 2.6 trillion with loans growing at over 1.3% and deposits outpacing loan growth and grew at over 4% during the year 2017 based on UAE Central bank estimates.

The banks under the guidance and supervision of The UAE Central Bank, continued to strengthen their balance sheets with average capital ratios of over 18% during the year.

The increasing cost of deposits and increased competition amongst banks however led to lower margins and impacted profitability for some banks.

With accelerating economic growth in the year 2018 and expected pick-up in global growth driven by rebound in investment and trade, the UAE's banking sector remains well positioned with stable outlook reflecting economic resilience, strong capitalisation and improving funding and liquidity situation.

Despite the difficult and uncertain economic environment, Al Masraf's performance in 2017 against this background was stable.

The Banks total assets grew to over AED 19b for the first time and reflecting a strong growth of 7% as compared to the same period last year.

Net Loans & advances at AED 12.6b grew by 19% and Customer deposits at AED 12.6b grew at 17% as compared to December 2016.

The growth in loans came with a strong Capital Adequacy Ratio of 22.4% which is amongst the highest within the UAE Banks.

Net Operating Income for the increased to AED 496m an increase of over 9%.

Return on Equity and Return on Assets continues to be at a healthy level of 9.16% & 2.05% respectively. The Bank delivered a strong ROA which is amongst industry best.

The Board during the year continued to focus on strengthening the corporate governance and the spent a significant proportion of its time in improving board functioning and decision making processes. The Board continues to work closely with the management to reinforce the multinational nature of our organization with a stable and resilient corporate governance foundation.

The senior management team was further strengthened during the year with new appointments from large organizations demonstrating our ability to attract talent to our bank. The bank continued to work towards increasing opportunities and filling senior level positions with Emiratis in its drive to improve the Emiratization penetration within the organization.

In recognition of our continuous commitment to the policy of Emiratization, Al Masraf, was honored with the award for the best CEO in the field of Emiratization for the year organized by Human Resources Committee at Emirates Institute for Banking and Financial Studies (EIBFS).

As we enter 2018, we are backed by renewed strategy, a strong capital position, a conservative balance sheet, and technology & business transformation initiatives that would further strengthens the Bank's position to deliver wide range of products and superior customer service.

I would like to take this opportunity to thank the Board, the CEO, the executive team and all the staff of Al Masraf for contributing towards the success of our Bank and look forward to your continued support in 2018.

I would like to thank our customers, our partners and all stakeholders for placing their trust in our bank. We are committed to deliver high standards of service at all times. I also want to express my appreciation to the Central Bank of UAE for their continued support.

Finally and on behalf of the shareholder, the Board, management & staff of Al Masraf, I would like to thank our great leaders, His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the United Arab Emirates and Ruler of Abu Dhabi, His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of United Arab Emirates and Ruler of Dubai and His Highness Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi for their leadership in providing a remarkable platform of development, economic growth, welfare & happiness of the citizens of the country and its residents.

Mohamed Mohd. Ben Yousef
Chairman

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Bank practices good governance with the belief to create long-term added value on a sustainable basis for all its shareholders and all interested parties through the commitment to the principles contained in the Governance Code. The Code builds good governance principles in all of the bank's activities.

Under governance, both the Board of Directors and the Bank's management themselves are committed to the principles set out in the Governance Code. The Bank's management acts as the guardian of the interests of all other parties dealing with the Bank or affected by its business.

The Bank shall have a vision, mission and values of its own consistent with the principles and philosophy of governance. The Board of Directors shall adopt this and shall ensure that it is applied.

BOARD OF DIRECTORS

The board has overall responsibility to manage and conduct the Banks affairs, including adopting strategic objectives and overseeing the executive management under the corporate governance framework and the Bank's Culture Guide.

The Board of Directors' primary responsibility is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies, such as its customers, employees, suppliers under the framework of the work environment of the Bank.

In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank and to comply with relevant laws, regulations, rules and best banking practices. In discharging that obligation, the directors may rely on the honesty and integrity of the Bank's senior executives and its advisors and auditors.

The Board shall be responsible to ensure that the management balances the promotion of long term growth with the delivery of short term goals. The Board is the main body for making decisions within the Bank.

The Board defines appropriate governance structures and practices suitable for its own work, and puts in place the means and mechanism for such practices to be followed and periodically reviewed for its ongoing effectiveness.

Role of the Board of Directors

The Board of Directors is empowered , under the Bank 's Article of Association with the widest powers necessary to carry out the activities and functions required to fulfil the objectives of Al Masraf, which includes but not limited to:

1. Determining strategic goals of the Bank and guiding the Executive Management.
2. Supervising the Executive Management (Top or Senior Management) and follow up its performance and ensure of the safety of the financial position of the Bank by adopting policies and adequate procedures to supervise and oversee the performance of the Bank.
3. Approve basis of allocation of capital within the Bank as a sound system of Capital Management to achieve the profitability and economic feasibility of the Bank.
4. Ensure that the Bank manages risk effectively by approving Risk Appetite Statement and risk framework and monitor aggregate risk exposures that occurs to the Bank in its generality.
5. Ensure implementation of disclosure policies and procedures that comply with regulatory requirements.
6. Appoint Chief Executive Officer of the Bank and key members of Senior Management and Heads of control functions, which includes organizing their selection process and their compensation, monitoring and, when necessary, replacing them and overseeing succession planning.
7. Ensure that the Bank has strong and well-articulated cyber security systems in place. The Board must learn about any related breaches or losses.
8. Establishing conflict of interest practices between the Board members and within the Bank in general.

2017	9th February	Board Meeting No-207
	30th March	Board Meeting No-208 & Annual General Assembly Meeting No-41
	18th May	Board Meeting No-209
	14th September	Board Meeting No-210
	16th November	Board Meeting No-211

BOARD COMMITTEES

The Board often delegates work to committees of directors to more effectively deal with complex or specialized issues and to use directors' time more efficiently. Committees make recommendations for action to the full board, which retains collective responsibility for decision-making.

Audit & Compliance Committee (ACC)

The primary purpose of the Committee is to assist the Bank's Board of Directors in fulfilling its overseeing role regarding establishment of controls and compliance standards and maintaining effective Corporate Governance policies and procedures.

The Committee plays a vital role in helping the Bank in achieving its objectives by enhancing the transparency in financial reporting process rather than providing reasonable assurance with regard to compliance with rules and regulations and adopting financial standards and forwarding it to the Board and recommending to appoint external auditors.

Remuneration and Nomination Committee (RNC)

The committee considers matters relating to appointing two executive managers and review their remunerations and motivations including policy for senior management remuneration and their annual individual remuneration awards.

The Committee approves, within the powers delegated to it by the Board, changes to incentive and benefit plans applicable to senior managers and review strategic HR issues including employee retention, motivation and commitment and succession planning for senior management positions.

The Committee considers matters relating to the composition of the Board including the appointment of new Directors making recommendations to Board as appropriate. The committee also reviews succession plans for the Chief Executive Officer and other key Senior Management positions, reviews Corporate Governance arrangements and oversees the annual performance evaluation of the Board, its committees and Senior Management.

Board Risk Committee (BRC)

The Committee is appointed by Board of Directors for overseeing of the following:

Risk arising from all businesses of the bank and control processes related to it. Ensure comprehensive and well organization of Risk Management functions within the bank.

1. Ensure that Risk Management adopts best practices and follow regulatory stipulations.

Board Credit & Investment Committee (BCIC)

The purpose of the committee is to ensure that the quality of assets meets the Bank's Risk appetite. And the Committee is the designated body to take Credit/ Investment decisions (within the powers delegated by the Board).

The objectives of the Committee are to:

1. Establish a Centralized Policy Credit and Investment decisions approval.
2. Make speedy decisions and timely responses to the urgent Credit and Investment queries of the customers.
3. Ensure the quality of Credit/Investment decision making for the benefit if the Bank.

Committee	Member	Position	Frequency as per Charter	Meeting held on 2017
Credit & Investment Committee	- Mr. Mohamed Al Suwaidi - Mr. Yaqoob Janahi - Mr. Ahmed Bin Braik	- Chairman - Member - Member	At least 3 times in a year	2
Audit & Compliance Committee	- Mr. Yaqoob Janahi - Mr. Amr Alhgag - Mr. Abdulqader Obaid Ali	- Chairman - Member - Independent Audit Member	At least quarterly	5
Risk Committee	- Mr. Ahmed Bin Braik - Mr. Mustafa Makhlouf - Mr. Bashir Matok	- Chairman - Member - Member	At least quarterly	5
Nomination & Remuneration Committee	- Mr. Mohamed Ben Yousef - Mr. Mohamed Al Suwaidi - Mr. Zine-Eddin Bouzit	- Chairman - Member - Member	At least once yearly	5

Frequency of Meetings

The Board of Directors shall meet at the Bank's headquarter or outside the same according to the requirements of its article of association at least once every three months or whenever the need arises.

The agenda of the meeting with supporting documents shall be provided to the directors within sufficient time prior to the meeting date to provide ample time for review beforehand.

And a director has the right to suggest items for inclusion on the agenda or to raise subjects that are not on the agenda for that meeting.

Decision Making within the Board

Decisions of the Board shall be taken by vote of the majority of Board i.e. directors present. If votes are equal the side which the Chairman supports shall prevail.

The Board may take some decisions passing resolutions if all of the Board directors agree that the case necessitates that due its urgency and the proposed resolutions are delivered to the Board Directors in writing and accompanied by all necessary supporting information.

And the resolution shall not be considered as effective unless all the Board of Directors approves it and shall enter into force in the upcoming meeting.

If a Member has a reservation, the core reasons for such negative vote shall be minuted.

Remuneration

The form and amount of remuneration to directors is determined by the shareholders upon the recommendations of the Board, within the provisions of Bank's Articles of Association and Law.

Conflict of Interest

A Board Directors shall disclose any conflict of interest to the Board. Board members shall not use inside information to achieve personal gains for themselves or others.

They shall also abstain from voting or even taking part in decision making process on any matter where they have an actual or potential conflict of interest.

And it is not permitted for Board of Directors to enter into any advisory relationship with the Bank.

Confidentiality

Board Members shall keep the entire Bank's information strictly confidential so as long as such information has not been made public.

At the end of the term of their mandate, they must return all confidential documents to the Bank and destroy all electronic copies if directed to do so by the Bank and they remain legally responsible if any information is made public through them.

Corporate Governance Standards

In discharging its responsibilities, the Board shall have regard to establish and evolving best practice Corporate Governance standards. If it is required to work on basis different than these standards or codes or the CBUAE guidelines is required or believed to be appropriate, the Bank shall provide appropriate explanation and justification and use as required, in the Bank's external disclosures.

Difference between the positions of the Chairman of the Board of Directors and the Chief Executive Officer. The Chairman of the Board of Directors and the Chief Executive Officer has different kind of responsibilities, therefore to prevent any conflict of interest and to preserve an effective supervision over the management, the positions should be occupied by two different individuals in application to the valuable principles of the code.

BOARD ACTIVITIES IN 2017

The Board of Directors met 5 times in 2017 and received information in between meetings on regular basis from the Board and Management Committees in relation to the Bank's business developments.

MANAGEMENT COMMITTEES

Management committees have ultimate responsibility for directing the activity of the Bank, ensuring it is well run and delivering the outcomes for which it has been set up.

Asset Liability Management Committee (ALCO)

The committee plays main role in ensuring that the ALM strategy and the Bank's Market Risk and Liquidity Risk Management Policies are implemented.

Management Credit Committee

The Committee shall review credit facilities to Corporate and Retail customers within the limits of the delegated powers of the Executive Management and recommendations are presented to the Credit and Investment Committee or to the Board depending on the specialization.

Investment Committee

The purpose of the committee is to:

1. Take investment decisions in Stocks and Bonds.
2. Review the Stock and Bond portfolio.
3. Take liquidation decisions for individual Stocks and Bonds.

IT Steering Committee (ITSC)

The purpose of the Committee is to assist in governing and overseeing Bank IT related matters and setting priorities specialized for IT initiatives and protect the security of IT information.

Management Committee

The committee supports the Chief Executive Officer in the day-to-day management of the business. The committee develops strategies and policies for recommendation to the Board and implements the strategy approved by the Board.

Operational Risk Management Committee (ORMC)

The purpose of the committee id to study risks in all its aspects to prevent operational risks.

Remedial Management Committee

The purpose of the committee is to improve efficiency of Remedial Management by respective units after reviewing/ and acting on the reports of Recovery and Remedial man-agement units within business and Credits.

Human Resources Committee (HRC)

The HR Committee provides a framework to strategically manage the Human resources of the bank by ensuring an effective organization structure and providing adequate human resources, and promoting performance driven work culture, Bank's Vision and Values, adequate contribution procedures suitable for all social and legal commitments And the Banks vision and reward policy and hiring employees according to the applied policy in the Bank and through ad-herence to the social and legal commitments.

Purchase Committee

This committee reviews and evaluates the purchasing process and approves as per the authority delegated by Chief Executive Office or Board of Directors.

Management Compliance Committee

The purpose of the committee is to strengthen compliance function to align with the following:

1. Local and international regulations, including sanctions & tax compliance.
2. International best practices on Anti Money Laundering (AML), Counter Financing of Terrorism (CFT) and Know Your Customer (KYC).
3. Safeguarding the Banks reputation against any associa-tion with money laundering or terrorist financing.

Risk Control Forum

The Management Risk Control Forum is formed to oversee Bank wide risks (other than those covered by operational risk committee). It also includes assessing risks and making action plans related to:

a) Risks arising from businesses of the Bank and related control processes

b) Comprehensive Risk Management and organization within the Bank.

c) Follow best practices in Risk Management and regulatory stipulations.

OTHER ASPECTS OF CORPORATE GOVERNANCE

Related Party Transaction Policy

The Bank shall follow the requirements of relevant International Financial Reporting Standards (IFRS) with respect to related party transactions. Related parties can include Chairman and the Board of Directors and the senior executive management in the Bank and employees and their relatives up to second degree and also entities where one of them own not less than 30% of shares from its capital as well as subsidiaries, affiliates or sisters or allied companies.

Adherence to AML & Combating Financing of Terrorism regulations

The Bank is committed to ensuring adherence to laws and regulations relating to Anti-Money Laundering (AML), combating the Financing of Terrorism (CFT) sanctions compliance and to the relevant recommendations of the Basel Committee and Financial Action Task Force throughout the Bank.

Code of Ethics and Business Conduct

Ethics involves applying moral standards – good, right and fair standards of conduct which are supported by values, to shape the decisions and actions of individuals within the organization in the pursuit of Bank's objectives.

Whistle Blowing

Whistle blowing is a channel of communication that encourages employees to blow the whistle safely (raise the alarm) about such concerns as mentioned to protect the interest and image of the Bank without having the fear of being victimized.

Outsourcing of various functions of the Bank

The Bank should have a clear policy when assigning its functions to an outsourcer. Bank should have in place a comprehensive policy to lead and guide the assessment operation of the functions activities in a way whether those activities can be outsourced and the appropriate procedure to do so.

Sharia'a Compliance – Islamic Products and Services

Bank shall strictly adhere to Islamic Sharia'a regulations and principles in accordance with the interpretation of the Bank's fatwa and Sharia'a Supervisory Board, and its directions and advices, in respect of all products and services offered under the Islamic window or branches.

Compliance

Since the launch of Al Masraf's transformation drive in 2013, Al Masraf has developed a comprehensive Compliance & AML Program, which is designed to detect and prevent all types of financial crimes (i.e. money laundering, terrorist financing, bribery, corruption, as well as breaches of sanctions & tax compliance regulations). In 2017, upon directives from the Central Bank of UAE, Al Masraf commissioned an independent detailed assessment of its AML Framework. A report by KPMG highlighted the following areas of strength:

"The Compliance function is independent and has unrestricted access to all necessary information. The Bank has a comprehensive set of AML and sanctions policies and procedures that cover the pertinent areas. The Bank has a well-defined process for performing ongoing due diligence of customers on a risk based approach and conducts regular reviews for high risk customers".

Risk

The risk management framework lays emphasis on the Bank's risk philosophy, proper organizational structure, risk and reward balance and is supported by dedicated monitoring and risk measuring mechanism.

The Bank has most of the required policies and procedures that define the operational aspects of the Bank's key activities.

In addition, Business Units also use approved process notes, procedure documents etc. to establish formal processing. We have acquired a process flow application (GIEOM) which will provide online, the policies, Standard Operating Procedures (SOPs) and training

The Bank has an independent Risk Management Structure headed by Chief Risk Officer who functionally reports to Board Risk Committee.

Legal

Legal Department provides exemplary legal services mitigating bank's financials and reputational risk by implementing internal customer focused policies, terms and conditions and continual improvement of Quality Management System for delivering best in class legal services including but not limited to providing advices as precautionary actions, Vetting and drafting of documentations, contracts, account openings, borrowing documents and collateral securities, protecting Al Masraf's interest.

Audit

Independent, objective assurance and consulting functions evaluate the effectiveness of risk management, control and corporate governance process internal audit applied a comprehensive risk based audit of all operating units and departments in the bank to ensure e.g. compliance with internal policies, procedures, international standards and applicable laws and regulations;

Audit Committee Charter which approved by the Board is identifying Internal Audit responsibilities and reporting lines which is to (Board Audit Committee).

EXECUTIVE MANAGEMENT

Faisal H. Galadari
Chief Executive Officer

Mr. Hussein Ohida
AGM – Corporate Support Services

Mr. Abdelrazzak Trabelsi
AGM – BPR & Quality

Mr. Ahmed Alrefaei
Chief Operating Officer

Mr. Charles Doghlass
Chief Business Officer

Mr. Vikesh Mirani
Chief Financial Officer

Mr. Zahid Rashid
Chief Risk Officer

Mr. Mohammed Ashour
Head - Audit

Mr. Talal Al Mazrooei
Head - Consumer Banking
& Wealth Management

Ms. Suaad Al Shimmari
Head – Human Resources

Mr. Ajay Sehgal
Head - Treasury & Investment

CEO'S MESSAGE

Faisal H. Galadari
Chief Executive Officer (CEO)

I am pleased to report that 2017 was yet another year of outstanding performance, during which we proved ourselves capable of delivering results even in a testing environment. This is proof of the efficiency of our business strategy; as shown in the robust performance in all business segments in 2017.

Building on its success throughout the previous years, Al Masraf achieved success based on its ambitious strategy to meet customer's demands and to get the best of returns for our shareholders. Our profits at AED 363 million was a result of cautious approach to risk management and implementing a clear, viable and unique strategy throughout the past three years.

Al Masraf' ability to achieve continuous growth, despite the challenging and competitive environment prevailing in the market is a clear proof of its distinguished performance. The results of 2017 saw a growth of 5% in the total Operating Revenues, which increased to AED 729 million compared to AED 694 million in 2016. Al Masraf's operating results was attributed to an growth of 20% in the loans portfolio to reach AED 12.6 billion. Moreover, Al Masraf managed to expand its customer base attracting more deposits to the bank and thereby rechanneling this amount in ways that will benefit the national economy.

The customer deposits for 2017 increased to AED 12.6 billion (17% increase) and the assets of the bank increased by 7% to reach AED 19 billion. Taken together, such indicators confirm the significant development Al Masraf has gone through during the financial year 2017 and its ability to expand its credit operations and meet its funding commitments towards its clients, particularly in the corporate sector, which is the most important sector in financing operations of Al Masraf. This can be attributed to its significant financial solvency that exceeds the Central Bank requirements and Basel Committee standards. Furthermore, the bank's Capital Adequacy Ratio went up to 22.4%. This is a high percentage that will further enhance our ability to efficiently and competitively expand our credit, in a market with fierce competition among different banks.

Throughout the years, Al Masraf has relentlessly succeeded in implementing a strategy of sustainable growth, providing quality banking services and products, following cautious risk management strategy, and retaining qualified staff.

During 2017, we launched our 5 year strategy for 2017-2021, with the aim of enhancing bank's performance through maintaining robust and diverse balance sheet as well as achieving stable and sustainable growth.

Following an innovative and unique customer services approach has been the cornerstone of our strong performance. We made the ultimate use of all available opportunities, by updating our information technology infrastructure, developing services channels to increase customer satisfaction and product quality, and enhanced our presence in Abu Dhabi by inaugurating our new branch in Mussafah Industrial Area.

Driven by the increased competitiveness resulting from the increase in deposit rates, we decided to introduce new products this year to attract more customers and deposits. We'll also carry with our plan to update our digital services, transform branches to digital branches, update our ATM services, and finally carry on our well-studied expansion plan inaugurating the new building in Sheikh Zayed Road in Dubai.

Our technical infrastructure has also gone through significant process of improvement, as we launched a number of initiatives to support operations and product automation simultaneously with enhancing information security and protection as well as enhancing the efficiency and smoothness of service. We will continuously invest in modern technology to enable our customers to avail our services easily and conveniently. This can be clearly seen in the latest update of our website and our new smartphone application.

During 2017, we managed to attract new clients, thanks to the group of Shari'a-compliant products & services, supervised by a council of leading Shari'a scholars.

Year 2017 was a year that saw increased focus on expanding our high-income and high-networth client base, by providing banking products and solutions with highest standards, offering customers a superior banking experience.

As a part of our Emiratization initiative, we increased the number of Emirati nationals' in key positions in the bank. This was one of our top priorities as a part of our strategic objectives. Emirati nationals now occupy 32% of the jobs in different bank sectors. Al Masraf also managed to Emiratize all of its branches, achieving 100% Emiratization in all its branches.

As part of our endeavors to induct qualified national staff to occupy leading positions, we developed a group of internal and external training programs, aimed at providing them with the required skills and capabilities that will enable them to carry out supervisory tasks. Al Masraf also participated in a number of Career Fairs in the UAE, with the aim of attracting UAE national staff.

Al Masraf signed an agreement with banking and financial software company Temenos Universal Suite (T24), which provides integrated solutions to make individual, commercial, and corporate banking services with the new core-banking platform for channels and banking.

Temenos core banking solution will enable and sustain Al Masraf's strategy of innovating products and making the customers the center of attention, in compliance with the new innovation-based strategy. Our selection of Temenos Universal Suite (T24) confirms our commitment to innovation and technology. We invest in our human resources and technology to provide innovative solutions and a means of convenience for our customers. The structure of this modern software and the immediate advantages will provide the base for expanding our digital operations.

As part of the digital transformation program adopted by Al Masraf to enrich its customers' experience, we launched a new smartphone application that has many advantages allowing our customers to smoothly and easily carry out their bank transactions on any smartphone or hand held devices.

We ceaselessly work on developing our services and offering digital banking solutions that can cope with the fast pace of our customers lives as well as providing the highest degrees of security and convenience. Launching the new application was part of a group of initiatives that are in turn part of the digital transformation process adopted by Al Masraf to meet the increasing demand on digital banking solutions.

The launch of the new application shows our continuous keenness on coping with the latest technologies in banking, providing integrated packages of smart banking channels that are user-friendly and has the utmost degrees of security and protection. All this contributes to enriching our customers' banking experience.

Al Masraf organized a series of seminars for our customers and strategic partners under the theme of "Sharing Knowledge". The first of these seminars was conducted after the introduction of Value-Added Tax in the UAE, with the aim of informing our SME clients about the impact of the tax on their business. Another seminar was organized on the new financial legislations and laws, particularly the Federal Bankruptcy Law, Federal Law of Mortgaging of Movable Properties, and Grant of Land.

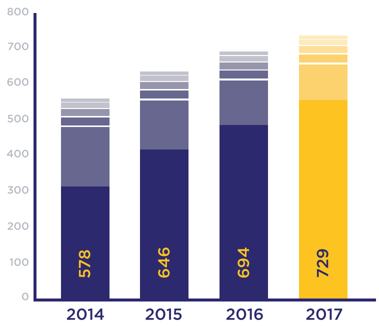
In line with UAE government strategy of transformation to a non-cash environment, by converting all cash payments into digital transactions, Al Masraf signed an agreement with Sharjah Electricity & Water Authority (SEWA) to provide unique services and facilitate paying bills through our digital channels. As part of our strategy to enhance partnerships and cooperation with leading institutions and our endeavors of supporting the development of Abu Dhabi, we signed an agreement of Mortgage Escrow Account Manager with Abu Dhabi Municipality, making Al Masraf officially authorized to open mortgage accounts in Abu Dhabi.

In conclusion, I'd like to seize this opportunity to express my gratitude and appreciation for the Board of Directors and our colleagues for their efforts and dedication. I'd like to thank all our customers and partners for their continuous cooperation, which has been the greatest contribution to achieving this robust performance. We will continue working together in order to exceed all expectations throughout the coming years.

Faisal H. Galadari
Chief Executive Officer (CEO)

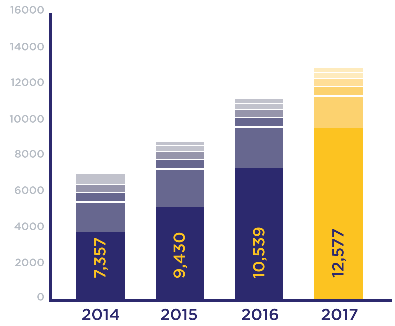
FINANCIAL HIGHLIGHTS

OPERATING INCOME
AED Mn



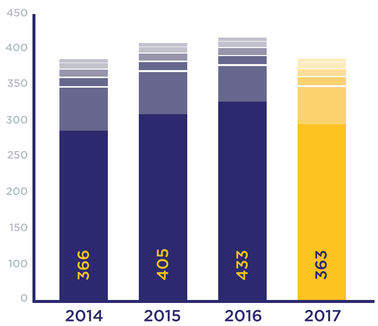
5% INCREASE OVER THE PREVIOUS YEAR

LOANS AND ADVANCES
AED Mn



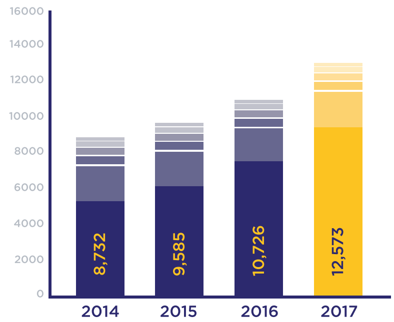
19% INCREASE OVER THE PREVIOUS YEAR

NET PROFIT
AED Mn



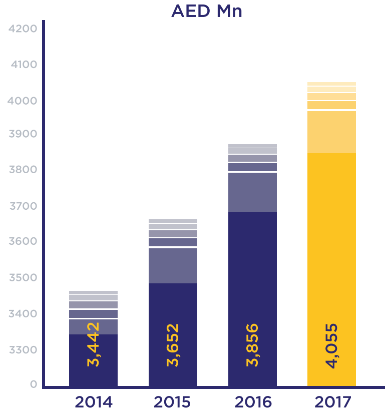
16% DECREASE OVER THE PREVIOUS YEAR

CUSTOMER DEPOSIT
AED Mn



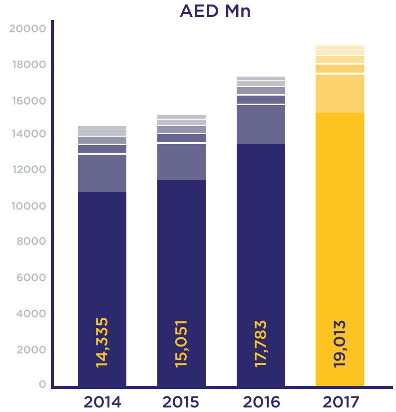
17% INCREASE OVER THE PREVIOUS YEAR

TOTAL EQUITY
AED Mn



5% INCREASE OVER THE PREVIOUS YEAR

TOTAL ASSET
AED Mn



7% INCREASE OVER THE PREVIOUS YEAR

ARAB BANK FOR INVESTMENT AND FOREIGN TRADE PJSC (AL MASRAF)

Content *Page*

Respected Shareholders,

The Board is pleased to present its report together with the audited financial statements for the year ended 31st December 2017. The audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and an unqualified audit opinion has been issued by the Auditors.

FINANCIAL HIGHLIGHTS

In spite of the challenging market conditions, the Bank has been able to achieve higher than the market growth rates on almost all its business targets.

The total assets went up by 7% to reach AED 19,013 million (2016: AED 17,784 million) driven by continued strong growth of its lending portfolio and increased AFS Investments of the Bank. The net loans and advances of the bank increased by 19% from AED 10,539 million to AED 12,578 million. The total loans & advances constitute around 66% (2016: 59%) of the total assets. Bank's AFS Investment has increased by around 33%, from AED 945 million to AED 1,258 million.

FUNDING

To match the growth on lending, the customer deposits increased by 17%. The total customer deposits went up from AED 10,726 million as at 31 December 2016 to AED 12,573 million as at 31 December 2017. The inter-bank deposits and borrowings has reduced from AED 2,971 million in the previous year to AED 2,070 million as at 31 December 2017, a reduction of 30%.

EMPLOYMENT OF FUNDS

The growth on lending was achieved through adoption of a documented strategy on segment caps and to reduce the concentration risk. Due care was taken to maintain the liquidity ratios as well while achieving the growth of 19% on net lending. The improved credit underwriting process and the strengthening of other housekeeping matters helped the bank to achieve a reduction in the non-performing loans while increasing the coverage ratio.

DEPOSITS WITH BANKS

The Bank's liquidity was well maintained, with sizeable portfolio in short-term interbank placements and balances with the Central Bank. The placements with banks is AED 2,208 million as at 31 December 2017 as against AED 3,458 million as at 31 December 2016.

The cash and bank balances with the Central Bank, which also includes the statutory reserves and certificate of deposits was at AED 1,868 million as at 31 December 2017 against AED 1,736 million in the previous year. The bank was in total compliance with the Central Bank Regulatory Limits on Liquidity Ratios at the year end.

INVESTMENTS

The Bank's financial investments consist of both fixed income securities and equities. These portfolios are being marked to market on a regular basis. The total net market value of the investments of the bank amounted to AED 1,258 million compared to AED 945 million as at 31 December 2016.

INVESTMENTS PROPERTIES

The investments properties were revalued during the year by an external valuation firm. This resulted into an impairment charge of AED 4 million (2016: AED 45 million). The revaluation and sale of Lands & building has resulted into reduction of the net book value of Investment Properties to AED 621 compared to AED 686 million in the previous year.

CONTINGENT LIABILITIES

The Bank had a total outstanding in Documentary Credits and Letters of Guarantee of AED 7,240 million as at the end of the year, compared to AED 7,263 million in the previous year.

COMPREHENSIVE INCOME ACCOUNT

The Bank achieved an increase of 9% in its net operating profit (before credit impairment charge) – from AED 454 million in 2016 to AED 496 million in the current year.

The earnings per share is AED 4.84 thousand per share compared to AED 5.77 thousand per share in the previous year.

ISLAMIC BANKING SERVICES

Praise be to Allah and may Allah peace and blessing be upon the Prophet Mohammed (Peace and Blessing be upon Him), his family and followers,

To: Shareholders in Arab Bank for Investment and Foreign Trade

Dear Sirs,

According to the letter of assignment, we hereby submit the first annual report in relation to Islamic Banking Services transaction at Al Masraf, conducted during 2017.

Sharia Supervisory Board has observed the principles and contracts, related to the transactions and applications, introduced by the counter during the period from 01.01.2017 to 31.12.2017. Sharia Supervisory Board duly mentioned the service, to give an opinion on whether or not the Islamic Counter at Al Masraf, has been compliant with the rules and principles of Islamic Sharia, as well as the Fatwa and specific guidelines, issued by the Sharia Supervisory Board during said period.

The counter management bears the responsibility for assuring that the counter operates according to principles and rules of the Islamic Sharia, while our responsibility is limited to giving an independent opinion, based on our observation of the operations and in filing this report.

The Sharia Supervisory Board examined the documentation and procedures adopted at Al Masraf, based on the test of each type of operations. We also planned and carried out our observation to obtain all the information and clarifications, which we considered as necessary, to provide us with evidences enough to give reasonable confirmation, that the Counter did not breach the exalted rules and principles of the Islamic Sharia.

According to such elements and based on our review we opine as follows:

a. The contact, operations and transactions processed by the Counter during the year ending on 31.12.2017 had been according to the rules and principles of Islamic Sharia.

b. The distribution of profits and loss bearing on the investment accounts was consistent with the basis approved by us, as per the rules and principles of Sharia.

c. All the gains generated from sources or by means prohibited by the Islamic Sharia, were recommended to be spent in charity.

d. Zakat should be calculated according to the rules and principles of Sharia and in the manner approved by Sharia Supervisory Board.

We pray to Allah to guide you and us.

Prof. Jassim Ali Al Shamsi	**Dr. Ibrahim Ali Al Mansoori**	**Dr. Ibrahim Ali Al Tunaiji**
(Chairman)	*(Member)*	*(Member)*

Arab Bank Investment and Foreign Trade PJSC (AL MASRAF)
Independent Auditors' report
31 December 2017

KPMG Lower Gulf Limited
Nation Tower 2, 19th Floor,
Corniche, Abu Dhabi
P.O. Box 7613
United Arab Emirates

Telephone: +971 (2) 4014 800
Telefax: +971 (2) 4014 800
Website: www.ae-kpmg.com

The Shareholders
Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)
Abu Dhabi, United Arab Emirates

Opinion

We have audited the financial statements of Arab Bank for Investment and Foreign Trade PJSC ("the Bank"), which comprise the statement of financial position as at 31 December 2017, the 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 financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its 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 Financial Statements section of our report. We are independent of the Bank 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 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.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the Board of Directors' report set out on pages 1 and 2.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
(Continued)

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

The Board of Directors of the Bank is responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 detectinga material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee 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.

Arab Bank Investment and Foreign Trade PJSC (AL MASRAF)
Independent Auditors' report
31 December 2017

Report on Other Legal and Regulatory Requirements:

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

- we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- The financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- The Bank has maintained proper books of account;
- The financial information included in the Directors' report, in so far as it relates to these financial statements, is consistent with the books of account of the Bank;
- As disclosed in note 9 to the financial statements, the Bank has purchased shares during the year ended 31 December 2017;
- Note 29 to the financial statements discloses material related party transactions the terms under which they were conducted;
- Based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No.(2) of 2015 or in respect of the Bank, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2017; and
- Note 25 to the 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
Registered No. 1015
Abu Dhabi, United Arab Emirates
Date: 18/03/2018

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

Statement of financial position
as at 31 December

	Note	2017 AED'000	2016 AED'000
Assets			
Cash and balances with the Central Bank of the UAE	7	**1,867,514**	1,736,084
Due from banks and financial institutions - net	8	**2,208,223**	3,458,323
Available-for-sale investments – net	9	**1,258,305**	945,493
Loans and advances – net	10	**12,577,543**	10,539,200
Investment properties – net	11	**621,208**	686,039
Other assets	12	**217,729**	151,574
Property, Plant and equipment	13	**262,598**	267,529
Total assets		**19,013,120**	17,784,242
Liabilities			
Customers' deposits	14	**12,573,192**	10,725,721
Due to banks	15	**2,070,334**	2,970,768
Other liabilities	16	**314,979**	231,894
Total liabilities		**14,958,505**	13,928,383
Equity			
Share capital	17	**1,500,000**	1,500,000
Statutory reserve	17	**545,413**	509,095
Special reserve	17	**540,823**	504,505
General reserve	17	**380,000**	380,000
Revaluation reserve	17	**144,348**	160,001
Fair value reserve	17	**(2,633)**	(4,461)
Retained earnings		**946,664**	806,719
Total equity		**4,054,615**	3,855,859
Total liabilities and equity		**19,013,120**	17,784,242

These financial statements were authorized and approved for issue by the Board of Directors on 18/03/2018, and signed on their behalf by:

Mohamed Mohd Ali Ben Yousef
Chairman

Faisal H. Galadari
Chief Executive Officer

The notes on pages 46 to 100 form an integral part of these financial statements.
The independent auditors' report is set out on pages 38 to 40.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

Statement of comprehensive income
for the year ended 31 December

	Note	2017 AED'000	2016 AED'000
Interest income	18	**653,853**	580,270
Interest expense	19	**(145,045)**	(80,335)
Net interest income		**508,808**	499,935
Income from Islamic financing contracts	20	**65,141**	34,762
Depositors' share of profit	21	**(45,943)**	(34,407)
Net income from Islamic financing		**19,198**	355
Net interest and Islamic financing income		**528,006**	500,290
Fee and commission income	22	124,775	140,423
Fee and commission expense	22	(7,703)	(8,155)
Net fee and commission income		**117,072**	132,268
Net gain from investments at fair value through profit and loss		-	1,411
Dividend income		3,006	4,335
Net realized gain from available-for-sale investments		28,635	6,933
Net foreign currency exchange gain	23	14,618	14,763
Other operating income	24	37,863	34,195
		84,122	61,637
Operating income		**729,200**	694,195
General, administration and other operating expenses	25	(233,308)	(239,816)
Profit before net impairment charges on financial Assets, investment properties and property, plant and equipment		**495,892**	454,379
Net impairment charge on financial assets	26	(128,701)	42,602
Allowance of impairment on investment properties	11	(4,012)	(45,387)
Allowance of impairment on property and equipment	13	-	(6,053)
Loss on revaluation of financial instruments		-	(12,873)
Profit for the year		**363,179**	432,668
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation loss on property, plant and equipment	13	**(15,653)**	(89,176)
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value of available-for-sale investments	9	**1,828**	10,054
Total comprehensive income for the year attributable to Shareholders		**349,354**	353,546
Earnings per share (AED'000)	30	**4.84**	5.77

The notes on pages 46 to 100 form an integral part of these financial statements.
The independent auditors' report is set out on pages 38 to 40.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

Statement of changes in equity

for the year ended 31 December

	Share capital AED'000	Statutory reserve AED'000	Special reserve AED'000	General reserve AED'000	Revaluation reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2016	1,500,000	465,828	461,238	380,000	249,177	(14,515)	610,585	**3,652,313**
Profit for the year	-	-	-	-	-	-	432,668	**432,668**
Fair value adjustment	-	-	-	-	(89,176)	10,054	-	**(79,122)**
Total comprehensive income for the year	-	-	-	-	(89,176)	10,054	432,668	**353,546**
Transfer to reserves	-	43,267	43,267	-	-	-	(86,534)	-
Dividends paid to equity holders (Note 17)	-	-	-	-	-	-	(150,000)	**(150,000)**
At 31 December 2016	1,500,000	509,095	504,505	380,000	160,001	(4,461)	806,719	**3,855,859**
At 1 January 2017	1,500,000	509,095	504,505	380,000	160,001	(4,461)	806,719	**3,855,859**
Profit for the year	-	-	-	-	-	-	363,179	**363,179**
Fair value adjustment	-	-	-	-	(15,653)	1,828	-	**(13,825)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(15,653)**	**1,828**	**363,179**	**349,354**
Transfer to reserves	-	36,318	36,318	-	-	-	(72,636)	**-**
Dividends paid to equity holders (Note 17)	-	-	-	-	-	-	(150,000)	**(150,000)**
Zakat	-	-	-	-	-	-	(598)	**(598)**
At 31 December 2017	**1,500,000**	**545,413**	**540,823**	**380,000**	**144,348**	**(2,633)**	**946,664**	**4,054,615**

The notes on pages 46 to 100 form an integral part of these financial statements.

The independent auditors' report is set out on pages 38 to 40.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

Statement of cash flows
for the year ended 31 December

	Note	2017 AED'000	2016 AED'000
Cash flows from operating activities			
Profit for the year		**363,179**	432,668
Adjustments for:			
Depreciation	25	**21,395**	21,081
Provision / (reversal) for net impairment charge on financial assets	26	**128,701**	(42,602)
Impairment charge on property and equipment		**-**	6,053
Amortization of premium on bonds		**10,480**	9,832
Allowance for impairment on available-for-sale investments		**-**	12,873
Gain on sale of available-for-sale investments		**(28,635)**	(6,933)
Gain on sale of investment properties		**(3,175)**	-
Gain on sale of property and equipment		**(3,992)**	-
Gain on financial assets at fair value through profit or loss		**-**	(1,712)
Allowance for impairment of investment properties	11	**4,012**	45,387
Provision for employees' end of service benefits	16	**10,712**	8,392
Operating cash flows before payment of employees' end of service benefits and changes in working capital		**502,677**	485,039
Payment of employees' end of service benefits	16	**(18,071)**	(7,424)
Changes in:			
Due from banks		**-**	38,134
Loans and advances		**(2,167,044)**	(1,066,321)
Other assets		**(66,155)**	(28,385)
Customers' deposits		**1,847,471**	1,140,845
Due to banks		**(367,298)**	367,300
Other liabilities		**90,442**	15,843
Cash reserve with Central Bank of the UAE	27	**29,835**	(95,958)
Net cash (used in) / generated from operating activities		**(148,143)**	849,073
Cash flows from investing activities			
Purchases of investment properties	11	**(1,884)**	(25)
Purchases of property and equipment	13	**(39,237)**	(16,035)

The notes on pages 46 to 100 form an integral part of these financial statements.
The independent auditors' report is set out on pages 38 to 40.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

Statement of cash flows *(Continued)*
for the year ended 31 December

Proceeds from sale of investment properties		**55,214**	-
Proceeds from sale of property and equipment		**21,776**	-
Proceeds from sale of available-for-sale investments		**310,704**	114,893
Purchases of available-for-sale investments	9	**(603,533)**	(208,293)
Purchases of financial assets at fair value through profit or loss	-	**-**	(665)
Proceeds from sale of financial assets at fair value through profit or loss		**-**	19,364
Net cash used in investing activities		**(256,960)**	(90,761)
Cash flows from financing activities			
Dividends paid	17	**(150,000)**	(150,000)
Zakat paid		**(598)**	-
Net cash used in financing activities		**(150,598)**	(150,000)
Net (decrease) / increase in cash and cash equivalents		**(555,701)**	608,312
Cash and cash equivalents at 1 January		**1,857,648**	1,249,336
Cash and cash equivalents at 31 December	27	**1,301,947**	1,857,648

The notes on pages 46 to 100 form an integral part of these financial statements.
The independent auditors' report is set out on pages 38 to 40.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

1. Legal status and principal activities

Arab Bank for Investment and Foreign Trade PJSC (the "Bank") was incorporated in Abu Dhabi by Union Decree No. (50) of 1976. It is registered as a Public Joint Stock Company in accordance with Federal Law No. (8) of 1984 (as amended) and UAE Companies Law of 2015 (UAE Federal Law No. (2) issued on 1 April 2015). The address of the Bank's registered office is P.O. Box 46733 Abu Dhabi, United Arab Emirates.

The Bank is engaged in commercial and retail banking activities and carries out its operations solely in the United Arab Emirates through its ten branches.

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

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), applicable requirements of UAE Federal Law No. (2) of 2015 (Issued on 1 April 2015) and the requirements of the Central Bank of UAE.

UAE Federal Law No. (2) of 2015 being the Commercial Companies Law ("UAE Companies Law of 2015") was issued on 1 April 2015 and has come into force on 1 July 2015. Companies are allowed to ensure compliance with the new UAE Companies Law of 2015 by 30 June 2017 as per the transitional provisions contained therein.

The Bank had implemented all changes required by the UAE Companies Law of 2015.

(b) Basis of measurement

These financial statements have been prepared on the historical cost convention except for the following:

Financial assets at fair value through profit or loss which are measured at fair value;
Available-for-sale investments which are measured at fair value; and
Freehold land and buildings classified as property, plant and equipment which are measured based on the revaluation model.

(c) Functional and presentation currency

These financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Bank's functional currency. Except as indicated, information presented in AED has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of 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 accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all reporting periods presented in these financial statements.

(a) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognises loans and advances and customers' deposits on the date at which they are originated. All other financial assets and liabilities and resultant gains and losses are initially recognised on the trade date at which the Bank 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.

(ii) Classification and measurement

Financial assets
At inception, a financial asset is classified in one of the following categories:

- loans and receivables;
- available-for-sale; and
- at fair value through profit or loss, and within the category as:
- designated at fair value through profit or loss.

Financial assets are classified as held for trading when they are:

- acquired for the purpose of reselling it in the near term; and
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is recognised, the gain or loss accumulated in equity is reclassified to the income statement.

Financial liabilities
The Bank classifies its financial liabilities as measured at amortised cost or at fair value through profit or loss.

Note 6 to the financial statements sets out the amount of each class of financial asset or liability as per the designation.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

3. Significant accounting policies *(continued)*

(a) Financial assets and financial liabilities (continued)

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers 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 Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (and the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. In addition, any cumulative gain or loss that has been recognised in other comprehensive income is also recognised in profit or loss.

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

The Bank uses the weighted average method to determine realised gains and losses on derecognition.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of membership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the service.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognised amounts and it intends 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 IFRSs, or for gains and losses arising from a group of similar transactions.

(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 method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(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 Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank 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

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

3. Significant accounting policies *(continued)*

(a) Financial assets and financial liabilities (continued)

(vi) Fair value measurement *(continued)*

frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates 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 Bank 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 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.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank 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. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

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

The Bank 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

At each reporting date the Bank assesses whether there is any objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of

financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank 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 Bank considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances (carried at amortised cost) with similar credit risk characteristics.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

3. Significant accounting policies *(continued)*

(a) Financial assets and financial liabilities (continued)

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

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in 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 profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss 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. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Impairment losses on an unquoted equity instrument that is carried at cost because its fair value cannot be reliably measured, is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

The Bank writes off certain loans and advances when they are deemed to be uncollectible.

(b) Revenue recognition interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest and similar income and expense are recognised in profit or loss using the effective interest rate. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. 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 statement of profit or loss and other comprehensive income include:

Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
Interest on available-for-sale investment securities calculated on an effective interest basis.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment and is not recognised as interest income (suspended interest).

(c) Fee and commission income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income including loan processing fees, investment management fees, placement fees

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

3. Significant accounting policies *(continued)*

(c) Fee and commission income and expense (continued)

and syndication fees, are recognised as the related services are provided. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period. Other fee and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Net investment income

Net investment income comprises gains and losses related to financial assets at fair value through profit or loss and includes all realised and unrealised fair value changes and dividend income. It also includes dividend income related to non-financial assets at fair value through profit or loss.

(e) Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net investment income, net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity investment.

(f) Foreign currency

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was 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 transactions.

Forward foreign exchange contracts are translated into AED at mid-market rates of exchange at the reporting date. Foreign currency differences arising on translation are recognised in profit or loss. However, foreign currency differences arising from the translation of available-for-sale equity instruments are recognised in other comprehensive income.

(g) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(h) Due from banks

Amounts due from banks are stated at amortised cost, less provision for impairment, if any.

(i) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

3. Significant accounting policies *(continued)*

(i) Loans and advances (continued)

in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances are classified as loans and receivables and are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the Bank 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 loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

(j) Available-for-sale financial assets

Available-for-sale financial assets are initially measured at fair value plus incremental transaction costs directly attributable to the acquisition. Subsequently, these investments are measured at fair value. Unrealised gains or losses are recognised in other comprehensive income, and presented as a separate component of equity, 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 reclassified to profit or loss as a reclassification adjustment.

For the purpose of recognising foreign exchange gains and losses, a monetary 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 statement of comprehensive income. For unquoted equity investments, where fair value cannot be reliably measured, are carried at cost less provision for impairment in value. Upon subsequent derecognition, the profit or loss on sale is recognised in the statement of comprehensive income for the year.

(k) Property, plant and equipment

(i) Recognition and measurement

Items of property and equipment are initially measured at cost. Subsequently, all items except for freehold land and buildings are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold land and buildings, which are measured using the revaluation model, are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses, if any.

Any surplus arising on the revaluation is recognized in other comprehensive income ("OCI") except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognised in profit or loss, in which case the credit to that extent is recognised in profit or loss. Any deficit on revaluation is recognised in profit or loss except to the extent that it reverses a previous revaluation surplus on the same asset, in which case the debit to that extent is recognised in OCI. Revaluation increases and decreases cannot be offset, even within a class of assets. Land and any asset situated on the land - e.g. a building or specialised plant - are separate assets. Accordingly, increases and decreases in the fair value attributed to the land and to the building are recognised separately.

Capital projects-in-progress are initially recorded at cost, and upon completion are transferred to the appropriate category of property and equipment and thereafter depreciated.
It is the Bank's policy to perform a full revaluation exercise for the freehold land and buildings every year and record the adjustments accordingly.

Any revaluation gain or loss on these freehold land and buildings is recorded in the revaluation reserve through other comprehensive income.

Cost includes expenditure that is 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.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

3. Significant accounting policies *(continued)*

(k) Property, plant and equipment (continued)

(i) Recognition and measurement *(continued)*

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised in other income / other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Freehold land and fixed assets not commissioned are not depreciated. The estimated useful life of fixed assets for the bank is as follows:

Freehold premises	**30 years**
Freehold improvements	**10 years**
Leasehold improvements	**7 years**
Furniture and equipment	**4 years**
Computer hardware and software	**4 years**
Core banking software	**10 years**
Motor vehicles	**4 years**

Depreciation is to be charged to income applying the straight-line method considering the estimated useful life of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The depreciation charge for the year is to be calculated after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on additions is to be charged from the date on which the assets are available for use and ceases on the date on which they are disposed-off.

(l) Investment properties

(i) Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment properties are measured using the cost model which is cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of investment properties.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

3. Significant accounting policies *(continued)*

(l) Investment properties (continued)

(i) Investment properties *(continued)*

The estimated useful lives of buildings classified as investment properties for the current and comparative years are 30 years. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

(ii) Investment properties under development

Land and properties that are being developed for future use as investment properties are classified as investment properties under development and stated at cost incurred to date, less accumulated impairment losses, if any, until development is complete, at which time they are reclassified and accounted for as investment properties.

(m) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

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

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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, if no impairment loss had been recognised.

(n) Customers' deposits and due to banks

Customers' deposits and due to banks are initially recognised at cost, being the fair value of the consideration received and subsequently measured at their amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on settlement.

(o) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(p) Provisions

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

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

3. Significant accounting policies *(continued)*

(q) Employee benefits

(i) Employees terminal benefits

UAE nationals employed by the Bank are registered in the scheme managed by the General Pension and Social Security Authority. Contributions to that scheme are charged as an expense. Staff terminal benefits for expatriate employees are accounted for on the basis of their accumulated service at the reporting date and in accordance with the Bank's internal regulations, which comply with the UAE Federal Labour Law.

(ii) Short term employee benefits

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

(r) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to perform under the terms of the contract.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

The financial guarantee liability recognized in the financial statements is initially recognized at fair value.

(s) Acceptances

Acceptances have been considered within the scope of IAS 39 Financial Instruments: Recognition and Measurement and are recognised as a financial liability in the statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities. Accordingly, there is no off balance sheet commitment for acceptances.

(t) Collateral pending sale

Real estate and other collaterals were acquired as the result of settlement of certain loans and advances 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.

(u) Earnings per share

The Bank presents basic earnings per share (EPS) information for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary Shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

(v) Islamic financing activities

(i) Murabaha

Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. A Murabaha contract is a sale of goods with an agreed upon profit mark up on the cost of the goods. A Murabaha contract is of two categories. In the first category, the Bank purchases the goods and makes it available-for-sale without any prior promise from a customer to purchase it. In the second category, the Bank purchases the goods ordered by a customer from a third party and then sells these goods to the same customer. In the latter case, the Bank

3. Significant accounting policies *(continued)*

(v) Islamic financing activities (continued)

(i) Murabaha *(continued)*

purchases the goods only after a customer has made a promise to purchase them from the Bank.

(ii) Ijara Muntahia Bittamleek

An agreement whereby the Bank (the "Lessor") leases an asset to its customer (the "Lessee") (after purchasing / acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and based on his promise to lease), against certain rental payments for specific lease term / periods, payable on fixed or variable rental basis.

The Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation and the timing of rental payment. The Lessee undertakes under this agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at a nominal value based on a sale undertaking given by the Lessor.

Ijarah rentals accrue upon the commencement of the lease and continues throughout the lease term based on the outstanding fixed rental (which predominantly represent the cost of the leased asset).

(iii) Wakala

An agreement between two parties whereby one party is a fund provider (the "Muwakkil") who provides a certain amount of money (the "Wakala Capital") to an agent (the "Wakeel"), who invests the Wakala Capital in a Sharia'a compliant manner and according to the feasibility study/ investment plan submitted to the Muwakkil by the Wakeel. The Wakeel is entitled to a fixed fee (the "Wakala Fee") as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, wakala profit is distributed on declaration / distribution by the Wakeel. However, since the Wakala profit is always reliably estimated it is internally accounted for on a time-apportioned basis over the Wakala tenure based on the Wakala Capital outstanding. The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement the Bank may act either as Muwakkil or as Wakeel, as the case may be.

(iv) Mudaraba

A contract between two parties whereby one party is a fund provider (the "Rab Al Mal") who would provide a certain amount of funds (the "Mudaraba Capital"), to the other party (the "Mudarib"). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit, if any. The Rab Al Mal is not involved in the management of the Mudaraba activity. In principle Mudaraba profit is distributed on declaration / distribution by the Mudarib. However, since the Mudaraba profit is always reliably estimated it is internally accounted for on a time-apportioned basis over the Mudaraba tenure based on the Mudaraba Capital outstanding. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal,

provided the Rab Al Mal receives satisfactory evidence that such loss was due to force majeure and that the Mudarib neither was able to predict the same nor could have prevented the negative consequences of the same on the Mudaraba. Under the Mudaraba contract the Bank may act either as Mudarib or as Rab Al Mal, as the case may be.

3. Significant accounting policies *(continued)*

(v) Islamic financing activities (continued)

(v) Musharaka

An agreement between the Bank and its customer, whereby both parties contribute towards the capital of the Musharaka (the "Musharaka Capital"). The Musharaka Capital may be contributed in cash or in kind, as valued at the time of entering into the Musharaka. The subject of the Musharaka may be a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to a pre-agreed profit distribution ratio as stipulated under the Musharaka agreement. In principle Musharaka profit is distributed on declaration / distribution by the managing partner. However, since the Musharaka profit is always reliably estimated, it is internally accounted for on a time-apportioned basis over the Musharaka tenure based on the Musharaka Capital outstanding. Whereas the loss, if any, is shared in proportion to their capital contribution ratios, provided in the absence of the managing partner's negligence, breach or default, the Group receives satisfactory evidence that such loss was due to force majeure and that the managing partner neither was able to predict the same nor could have prevented the negative consequences of the same on the Musharaka.

(vi) Customers' accounts and Wakala deposits from banks

Customers' accounts and Wakala deposits from banks are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost.

(vii) Profit income recognition

Profit income is recognised using the effective profit rate method.

The 'effective profit rate' is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective profit rate, the Bank estimates future cash flows considering all contractual terms of the financial asset, but not future credit losses.

The calculation of the effective profit rate includes transaction costs and fees and points paid or received that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset.

When a financial asset is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow required to unwind at the original effective profit rate of the instrument, and continues unwinding the discount as profit income. Profit income on impaired finance facilities and receivables is recognised using the original effective profit rate.

(viii) Profit distribution

Profit distribution is the amount accrued as an expense on the funds accepted from banks and customers in the form of Wakala deposits and Mudarba contracts and recognised as expenses in the statement of income. The amounts are calculated in accordance with agreed terms and conditions of the Wakala deposits and Sharia'a principles.

(w) New standards or amendments for 2017 and forthcoming requirements

(a) New currently effective requirements:

This Bank has adopted The recent changes to IFRS that are required to be adopted in annual periods beginning on 1 January 2017.

- Disclosure Initiative (Amendments to IAS 7)

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

3. Significant accounting policies *(continued)*

(w) New standards or amendments for 2017 and forthcoming requirements (continued)

(a) New currently effective requirements: (continued)

- Recognition of Deferred Tax Assets for Unrealised losses (Amendments to IAS 12)
- Annual Improvements to IFRSs 2014–2016 Cycle various standards (Amendments to IFRS 12)

These annual improvements and amendments to standards have no significant impact on the Bank's financial statements.

(b) Net standards and interpretations in issue not yet adopted.

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

New or amended standards	Summary of the requirements	Possible impact on financial statements
IFRS 9 Financial Instruments	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Bank has applied many components of its existing governance framework to ensure that appropriate validations and controls will be in place over new key processes and significant areas of Judgment.
IFRS 15 Revenue from Contracts with Customers	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	Based on an initial assessment of the new standard, management do not anticipate a material impact on the financial statements
IFRS 16 Leases	IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.	The Bank has assessed the potential impact of this standard and believes that it will not have any material impact on its financial statements.

IFRS 9 Financial instruments

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

The following is a summary of some of the 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

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

3. Significant accounting policies *(continued)*

(w) New standards or amendments for 2017 and forthcoming requirements (continued)

(b) Net standards and interpretations in issue not yet adopted. (continued)

IFRS 9 Financial instruments *(continued)*

through (i) OCI with no recycling to income or (ii) Income Statement. 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.

Impairment

The adoption of IFRS 9 will have a significant impact on the Bank's impairment methodology. The IFRS 9 expected credit loss (ECL) model is forward-looking compared to the current incurred loss approach. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit migration from inception. ECL should reflect an unbiased, probability-weighted outcome as opposed to the single best estimate allowed under the current approach. The probability-weighted outcome considers multiple scenarios based on reasonable forecasts.

IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The implementation of the standard is being led by the Finance Department and Risk Management Department in coordination with the business segments. The Bank has developed new methodologies and models taking into account the relative size, quality and complexity of the portfolios.

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

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

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

Stage 3 – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgement are:

Assessment of Significant Increase in Credit Risk

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

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

3. Significant accounting policies *(continued)*

(w) New standards or amendments for 2017 and forthcoming requirements (continued)

(b) Net standards and interpretations in issue not yet adopted. (continued)

IFRS 9 Financial instruments *(continued)*

Modified Financial Assets

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

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

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

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

Expected Life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options.

Experienced credit judgment

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

Impact Assessment

The Bank will record an adjustment to its opening 1 January, 2018 retained earnings, to reflect the application of the new requirements of Impairment at the adoption date and will not restate comparative periods. The Bank estimates the IFRS 9 transition amount impact on Total assets should approximately be in between 1.1% - 1.4% as at 1st January, 2018. The estimated impact relates primarily to the implementation of the ECL requirements. This assessment is preliminary because not all transition work has been finalized. The Bank continues to validate and refine the impairment models and related process controls leading up to the 31 March, 2018 reporting.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management

OVERVIEW

The Bank has exposure to the following risks from its business activities:

- **Credit risk**
- **Liquidity risk**
- **Market risk**
- **Operational risk**

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

(i) Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Bank's Risk Management Framework. The Board has entrusted a number of managers with the risk management function along with setting up and monitoring the Bank's credit, liquidity, operational and market risks, taking credit decisions above management's discretionary powers and setting market risk limits under which the Bank's management operates.

The Bank has further set up from within management, the Asset and Liability, ("ALCO") Credit and Operational risk committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas.

The Bank has risk appetite / tolerance limits which is revised annually and monitored regularly.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits, implement controls, monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's board risk committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

(a) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations; and arises principally from the Bank's loans and advances, due from banks, other financial institutions, non-trading debt instruments and certain other assets.

(i) Management of credit risk

The Bank's credit risk management framework includes:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Credit Officers. Larger facilities require approval by the Chief credit officer, the Credit Committee, Board credit and investment committee or the Board of Directors as deemed appropriate.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management *(continued)*

(a) Credit risk (continued)

(i) Management of credit risk (continued)

- Reviewing and assessing all credit exposures of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, segments, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for available-for-sale investments).

- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk rating (Moody's risk analyst) consist of 19 normal and 3 non performing categories. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews.

- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

The risk management team is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Bank manages the credit exposure by obtaining collateral where appropriate and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

Regular audits of business units and Bank credit processes are undertaken by internal audit department.

(ii) Exposure to credit risk

The Bank 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 amounts of financial assets represent the maximum credit exposure.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management *(continued)*

(a) Credit risk (continued)

(ii) Exposure to credit risk (continued)

	Due from banks and financial institutions		Available-for-sale		Loans and advances	
	2017 AED'000	2016 AED'000	**2017 AED'000**	2016 AED'000	**2017 AED'000**	2016 AED'000
Individually Impaired						
Substandard	-	-	**23,595**	61,596	**83,622**	28,007
Doubtful	-	-	**43,947**	46,573	**253,934**	229,646
Loss	-	-	**-**	-	**211,456**	298,903
Gross amount	-	-	**67,542**	108,169	**549,012**	556,556
Allowance for impairment	-	-	**(30,729)**	(52,953)	**(383,725)**	(308,479)
Interest Suspended	-	-	-	-	**(111,582)**	(110,578)
Carrying amount	-	-	**36,813**	55,216	**53,705**	137,499
Past due but not impaired	-	-	-	-	**377,253**	277,238
Neither past Due nor impaired	**2,232,223**	3,478,323	**1,221,492**	890,277	**12,611,447**	10,569,187
Includes loans with renegotiated terms	**-**	-	**-**	-	**1,564,496**	1,875,670
Collective impairment allowance	**(24,000)**	(20,000)	**-**	-	**(435,355)**	(419,448)
Deferred profit	**-**	-	**-**	-	**(29,507)**	(25,276)
Carrying amount	**2,208,223**	3,458,323	**1,258,305**	945,493	**12,577,543**	10,539,200
	==========	==========	==========	==========	==========	==========

Impaired loans and advances and available-for-sale investments

Individually impaired loans and investments are loans and advances and available-for-sale investments for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the agreement(s). These assets are graded 8 to 10 in the Bank's internal credit risk grading system.

Past due but not impaired loans and investments are those for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

(iii) Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured with any material concessions due to deterioration in the borrower's financial position even if these accounts were under normal classification at the time of restructuring. Once a loan is restructured, it remains in this category for a minimum period of twenty four month, in order to establish satisfactory track record of performance under the restructuring agreement.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management *(continued)*

(a) Credit risk (continued)

(iii) Loans with renegotiated terms (Continued)

Any case of payment holiday or any credit that show weaknesses in its conduct, will not be removed from said disclosure until a satisfactory track record is evidenced. The Bank determines the twenty four month period to commence from the date of signing of the agreement for restructuring. On this class of asset the Bank believes that specific impairment may not be required.

(iv) Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan and investment portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

(v) Write-off policy

The Bank writes off a loan or investment balance, and any related suspended interest and allowances for impairment losses, when the management determines that the loan or investment is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(vi) Collateral

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations. Credit policy and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and / or asset types can be considered for approval.

As at 31 December 2017, the Bank held credit risk mitigants with an estimated value of AED 7,159,832 thousand (2016: AED 6,722,125 thousand) against receivables from Loans and advances, Murabaha and Ijarah contracts and investments in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Bank accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against Placements with banks and other financial institutions, and no such collateral was held at 31 December 2017 or 31 December 2016.

The table below stratifies credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio:

LTV ratio	**2017 AED'000**	2016 AED'000
Less than 50%	**47,727**	21,023
51 – 70%	**84,987**	80,795
71 – 90%	**63,830**	24,034
91 – 100%	**-**	-
More than 100%	**-**	-
	196,544	125,852

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management *(continued)*

(a) Credit risk (continued)

(vi) Collateral (continued)

The Bank holds collateral against loans and advances in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of the borrowing and generally updated periodically as per the banks policy.

An estimate of the fair value of collateral and other security enhancements held against loans and advances is shown below:

	2017 AED'000	2016 AED'000
Against individually impaired		
Property	**104,661**	139,415
Equities	**-**	2
Others (FD)	**5**	-
	104,666	139,417
Against past due but not impaired		
Property	**1,664,077**	1,106,258
Equities	**27,727**	6,204
Others	**120,385**	112,772
	1,812,189	1,225,234
Against neither past due nor impaired		
Property	**4,531,586**	4,778,250
Equities	**214,528**	258,651
Others	**496,863**	320,573
	5,242,977	5,357,474
Total value of secured loans and advances	**7,159,832**	**6,722,125**

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management *(continued)*
(a) Credit risk (continued)

(vii) Concentrations of credit risk

The Bank monitors concentrations of credit risk by industry sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, due from banks and available-for-sale investments at the reporting date is shown below:

	Loans and advances	
	2017 AED'000	2016 AED'000
Concentration by industry		
Trading	**2,757,985**	2,752,376
Real estate	**2,655,194**	2,590,282
Personal loans for business (HNI)	**1,711,224**	1,122,290
Services	**1,376,015**	906,667
Construction	**1,438,601**	1,170,237
Financial institutions	**1,301,562**	979,583
Manufacturing	**929,774**	808,015
Individuals	**584,669**	566,176
Transport	**634,566**	426,245
Mining and quarrying	**14,796**	15,899
Agriculture	**3**	2,605
Others	**133,323**	62,606
Gross loans and Islamic financing	**13,537,712**	11,402,981
Less: deferred profit	**(29,507)**	(25,276)
Less: interest suspended	**(111,582)**	(110,578)
Less: allowance for impairment	**(819,080)**	(727,927)
Carrying amount	**12,577,543**	10,539,200

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management *(continued)*

(a) Credit risk (continued)

(vii) Concentrations of credit risk (continued)

	Due from banks and financial institutions		Available-for-sale investments	
	2017 AED'000	2016 AED'000	**2017 AED'000**	2016 AED'000
Concentration by sector:				
Public sector	**-**	-	**775,647**	596,174
Private sector	**-**	-	**35,222**	176,722
Financial institutions	**2,232,223**	3,478,323	**478,165**	225,550
	2,232,223	3,478,323	**1,289,034**	998,446
Less: allowance for impairment	**(24,000)**	(20,000)	**(30,729)**	(52,953)
Carrying amount	**2,208,223**	3,458,323	**1,258,305**	945,493

	Due from banks and financial institutions		Loans and advances		Available-for-sale investments	
	2017 AED'000	2016 AED'000	**2017 AED'000**	2016 AED'000	**2017 AED'000**	2016 AED'000
Concentration by location:						
UAE	**661,459**	909,163	**12,533,450**	10,500,571	**999,640**	822,770
Europe	**764,521**	866,257	**-**	-	**287**	252
GCC	**338,903**	636,320	**-**	-	**230,595**	88,194
Arab world	**19,815**	26,331	**-**	-	**8,921**	8,921
North America	**16,163**	29,598	**-**	-	**-**	6,666
Asia	**407,274**	990,654	**44,093**	38,629	**-**	-
Others	**88**	-	**-**	-	**18,862**	18,690
	2,208,223	3,458,323	**12,577,543**	10,539,200	**1,258,305**	945,493

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management *(continued)*

(a) Credit risk (continued)

(vii) Concentrations of credit risk (continued)

Concentration by location for loans and advances, due from banks and available-for-sale investments is measured based on the residential status of the borrower. Concentration by location for financial assets at fair value through profit or loss is measured based on the location of the issuer of the security.

As at 31 December 2017, twelve customers, (group wise exposures), comprised approximately 23.9% of the total balance of loans and advances (2016: 24.12%).

(viii) Settlement risk

The Bank'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 entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier.

(ix) Commitments and contingencies related credit risk

Credit risk arising from commitments and contingencies is disclosed in note 28 to the financial statements.

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

(i) Management of liquidity risk

The Bank's board of directors sets the Bank's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. Board approves the Bank's liquidity policies and procedures. Treasury department manages the Bank's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Management has diversified funding sources and closely monitors liquidity to ensure adequate funding. The Bank maintains a portfolio of short-term liquid assets, largely made up of short-term liquid financial assets at fair value through profit or loss, and inter-bank placements to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank relies on deposits from customers and banks as its primary sources of funding. Deposits from customers and banks generally have shorter maturities and a proportion of them are repayable on demand. The short term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

One of the critical means to measure adequacy of liquidity as per extant global regulation is through Liquidity Coverage Ratio ("LCR").The Bank has been internally reporting Basel III LCR numbers for a considerable period

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management *(continued)*

(b) Liquidity risk (continued)

(i) Management of liquidity risk (continued)

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 Bank also ensures that it is compliant with UAE Central Bank liquidity regulation on Eligible Liquid Assets Ratio ("ELAR") at all times.

(ii) Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets, i.e. total assets by maturity against total liabilities by maturity. For this purpose, high quality liquid assets, ("HQLA") includes cash and cash equivalents and investment-grade debt securities for which there is an active and liquid market. Debt securities issues, other borrowings and commitments maturing within the next month.

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

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

	Carrying amount 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
Assets							
Cash and balances with the Central Bank of the UAE	1,867,514	1,792,514	75,000	-	-	-	-
Due from banks and financial institutions	2,208,223	1,706,544	-	-	-	-	501,679
Available-for-sale investments	1,258,305	-	96,793	529,277	469,634	61,865	100,736
Loans and advances	12,577,543	1,562,970	1,886,579	3,097,134	3,154,858	413,026	2,462,976
Other assets	217,729	25,274	-	-	-	-	192,455
Total assets	**18,129,314**	**5,087,302**	**2,058,372**	**3,626,411**	**3,624,492**	**474,891**	**3,257,846**
Liabilities							
Customers' deposits	12,573,192	4,840,925	3,015,898	2,728,772	-	-	1,987,597
Due to banks and financial institutions	2,070,334	1,915,805	-	-	-	-	154,529
Other liabilities	314,979	25,273	-	-	-	-	289,706
Total liabilities	**14,958,505**	**6,782,003**	**3,015,898**	**2,728,772**	**-**	**-**	**2,431,832**

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management *(continued)*
(b) Liquidity risk (continued)
(ii) Exposure to liquidity risk (continued)

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

	Carrying amount 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
Assets							
Cash and balances with the Central Bank of the UAE	1,736,084	1,736,084	-	-	-	-	-
Due from banks and financial institutions	3,458,323	2,835,960	-	-	-	-	622,363
Available-for-sale investments	945,493	-	-	309,490	455,677	89,357	90,969
Loans and advances	10,539,200	1,177,835	1,837,348	2,974,305	1,579,752	691,205	2,278,755
Other assets	151,574	14,854	-	-	-	-	136,720
Total assets	**16,830,674**	**5,764,733**	**1,837,348**	**3,283,795**	**2,035,429**	**780,562**	**3,128,807**
Liabilities							
Customers' deposits	10,725,721	2,973,162	2,282,535	2,437,827	-	-	3,032,197
Due to banks and financial institutions	2,970,768	2,535,166	-	-	-	-	435,602
Other liabilities	231,894	14,854	-	-	-	-	217,040
Total liabilities	**13,928,383**	**5,523,182**	**2,282,535**	**2,437,827**	**-**	**-**	**3,684,839**

(c) Market risk

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

(i) Management of market risk

The Bank separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios are mainly held by Treasury unit, and include positions arising from market making and proprietary position taking, together with financial assets and financial liabilities that are managed on a fair value basis.

The Board of Directors has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Risk Management Division, reported weekly to Senior Management and discussed by the ALCO/ investment committee.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

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

(ii) 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 Bank manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

A substantial portion of the Bank's assets and liabilities are re-priced within three months. Accordingly, there is limited exposure to interest rate risk.

The effective interest rate of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating instrument or an instrument carried at fair value.

A summary of the Bank's interest rate gap position based on contractual re-pricing arrangements at 31 December 2017 is as follows:

				Re-pricing in			
	Total AED'000	**Up to 3 months AED'000**	**months 3 to 1 year AED'000**	**to 3 1 years AED'000**	**to 5 3 years AED'000**	**Over 5 years AED'000**	**Non-interest bearing AED'000**
Assets							
Cash and balances with the Central Bank of the UAE	1,867,514	575,000	75,000	-	-	-	1,217,514
Due from banks and financial institutions	2,208,223	2,208,223	-	-	-	-	-
Available-for-sale investments	1,258,305	-	96,793	529,277	469,634	61,865	100,736
Loans and advances	12,577,543	12,444,677	-	-	-	68,160	64,706
Other assets	217,729	-	-	-	-	-	217,729
Total assets	**18,129,314**	**15,227,900**	**171,793**	**529,277**	**469,634**	**130,025**	**1,600,685**
Liabilities							
Customers' deposits	12,573,192	4,859,899	3,015,898	733,225	-	-	3,964,170
Due to banks and financial institutions	2,070,334	2,070,334	-	-	-	-	-
Other liabilities	314,979	-	-	-	-	-	314,979
Total liabilities	**14,958,505**	**6,930,233**	**3,015,898**	**733,225**	**-**	**-**	**4,279,149**
On statement of financial position gap	**3,170,809**	**8,297,667**	**(2,844,105)**	**(203,948)**	**469,634**	**130,025**	**(2,678,464)**

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management *(continued)*

(c) Market risk (continued)

A summary of the Bank's interest rate gap position based on contractual re-pricing arrangements at 31 December 2016 is as follows:

		Re-pricing in					
	Total AED'000	**Up to 3 months AED'000**	**months 3 to 1 year AED'000**	**to 3 1 years AED'000**	**to 5 3 years AED'000**	**Over 5 years AED'000**	**Non-interest bearing AED'000**
Assets							
Cash and balances with the Central Bank of the UAE	1,736,084	-	400,000	-	-	-	1,336,084
Due from banks and financial institutions	3,458,323	3,458,323	-	-	-	-	-
Available-for-sale investments	945,493	-	-	309,490	455,677	89,357	90,969
Loans and advances	10,539,200	9,990,063	128,219	34,020	164,711	212,603	9,584
Other assets	151,574	-	-	-	-	-	151,574
Total assets	**16,830,674**	**13,448,386**	**528,219**	**343,510**	**620,388**	**301,960**	**1,588,211**
Liabilities							
Customers' deposits	10,725,721	3,663,935	2,282,535	412,385	-	-	4,366,866
Due to banks and financial institutions	2,970,768	2,970,768	-	-	-	-	-
Other liabilities	231,894	-	-	-	-	-	231,894
Total liabilities	**13,928,383**	**6,634,703**	**2,282,535**	**412,385**	**-**	**-**	**4,598,760**
On statement of financial position gap	**2,902,291**	**6,813,683**	**(1,754,316)**	**(68,875)**	**620,388**	**301,960**	**(3,010,549)**

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management *(continued)*

(c) Market risk (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The Bank assumes a fluctuation in interest rates of 75 basis points (2016: 75 basis points) and estimates the following impact on the profit for the year and equity at that date:

	2017 Profit for the year AED'000	Profit 2016 for the year AED'000	**2017 Equity AED'000**	2016 Equity AED'000
Fluctuation in yield	**4,387**	4,435	**3,041**	2,887
	==========	==========	==========	==========

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 16,529 million interest bearing assets at year-end (2016: AED 15,242 million) and AED 10,679 million interest bearing liabilities at year end (2016: AED 9,330 million). The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

The interest rate movements have an effect on retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss.

(iii) Currency risk

Currency 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 Bank's functional currency is the UAE Dirham. As at 31 December 2017, the Bank had the following significant net exposures denominated in foreign currencies:

	Net spot position AED'000	Forward position AED'000	**Net exposure 2017 AED'000**	Net exposure 2016 AED'000
Currency				
US Dollar	501,406	-	**501,406**	**(192,205)**
GBP	(388)	-	**(388)**	**319**
Euro	3,021	-	**3,021**	**1,281**

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

(iv) Other market price risk

Equity price risk arises from the change in fair values of equity investments. The Bank manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

4. Financial risk management *(continued)*

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

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

The Bank has established a framework of policies and procedures to identify, assess, control, manage and report risks.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

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

(e) Capital management

The Bank's regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

The Bank's objectives when managing capital are:

- Safeguarding the Bank's ability to continue as a going concern and increase the returns for the Shareholders; and
- Complying with regulatory capital requirements set by the Central Bank of the UAE.

During 2017, the Bank's strategy, which was unchanged from 2016, was to:

- Maintain capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel Accord guidelines; and
- Allocate capital to various businesses in an efficient manner.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank›s management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly (Basel 1) and quarterly (Basel II) basis.

4. Financial risk management *(continued)*

(e) Capital management (continued)

The Central Bank of the UAE issued its circular No. 27/2009 dated November 17, 2009 informing all the Banks operating in the U.A.E. to implement the Standardized approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has previously issued draft guideline for implementation of Standardised approach and Banks are expected to comply and report under pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements by March 2010. For operational risk, the Central Bank has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Standardised approach.

The Bank has complied with all externally imposed capital requirements throughout the years presented.

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

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

Tier 1 capital - includes Paid-up share capital, published reserves (including post-tax retained earnings), share premium, legal reserves, general reserves, hybrid Tier 1 Instruments (with prior approval from Central Bank), minority interests in the equity of subsidiaries less than wholly-owned.

Profits of the current period are allowable in the calculation of core capital, provided which is being reviewed by external auditors as per central bank guidlines.

Deductions must be made from Tier 1 core capital as per the Basel / Central Bank of the UAE rules and includes goodwill and other intangibles at net book value, adjustments for the cumulative effect of foreign currency translation, own shares held - at net book value taking account of any provisions made against the acquisition value, current year loss / retained losses, shortfall in provisions, other deductions to be determined by Central Bank of the UAE.

Tier 2 capital - includes general provisions, undisclosed reserves, asset revaluation reserves / cumulative changes in fair value, hybrid (debt/equity) capital instruments and subordinated term loan.

Tier 3 capital - includes principal form of eligible capital to cover market risks consisting of Shareholders' equity and retained earnings (Tier 1 capital) and supplementary capital (Tier 2 capital). But, subject to prior approval from the Central Bank of the UAE, banks may employ a third tier of capital (Tier 3 capital), consisting of short term subordinated debt, for the sole purpose of meeting a proportion of the capital requirements for market risks, subject to the conditions.

The Bank's capital adequacy ratio as per Basel II, at a minimum level of 12% (at least 8% of risk-weighted assets and Tier 1 capital of at least 4% of risk-weighted assets), is analysed into two tiers as follows:

	2017 AED'000	2016 AED'000
Tier 1 capital		
Ordinary share capital	**1,500,000**	1,500,000
Retained earnings	**946,664**	806,719
Statutory and special reserves	**1,086,236**	1,013,599
General reserve	**380,000**	380,000
	3,912,900	3,700,318
	=========	=========

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management *(continued)*

(e) Capital management (continued)

	2017 AED'000	2016 AED'000
Tier 2 capital		
General provisions, max. 1.25 % of credit RWA - only for exposures under standardised approach	**213,869**	188,177
	213,869	188,177
Total capital base	**4,126,769**	3,888,495
Risk weighted assets:		
Credit risk	**17,109,484**	15,054,164
Market risk	**20,833**	15,249
Operational risk	**1,293,406**	1,197,974
Total risk weighted assets	**18,423,723**	16,267,387
Capital adequacy ratio	**22.4%**	23.9%
Tier 1 ratio	**21.2%**	22.7%
Tier 2 ratio	**1.2%**	1.16%

Capital allocation

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular activities, it is not the sole basis used for decision making. Account is also taken of synergies with other activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors as part of Internal Capital Adequacy assessment program ("ICAAP").

In the process of applying the Bank's accounting policies, management has made the following estimates and judgements, which have the most significant effect on the amounts recognised in the financial statements.

Central Bank issued final guidelines regarding the Capital Supply Standards along with regulation vide notice 28/ 2018 dated 17 January 2018, which are effective from 31 December 2017.

As per Central bank regulation for Basel III, the capital requirements in the year 2017 is 11.75% inclusive of capital conservation buffer. This will increase to maximum of 13% inclusive of capital conservation buffer by year 2019.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

4. Financial risk management *(continued)*

(e) Capital management (continued)

The bank must comply with following minimum requirement:

i.) CET1 must be at least 7% of risk weighted assets (RWA);
ii) Tier 1 capital must be at least 8.5% of risk weighted assets (RWA);
iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA);

Additionally capital conservation buffer is to be maintained at 1.25% in year 2017, this will increase to 2.5% by year 2019.

The Bank's regulatory capital positions as 31 December 2017 under Basel III is as follows:

	2017 AED'000
Capital Base	
Tier 1 capital	3,912,900
Tier 2 capital	211,236
Total capital base	4,124,136
Risk weighted assets:	
Credit risk	17,109,484
Market risk	20,833
Operational risk	1,293,406
Total risk weighted assets	18,423,723
Capital adequacy ratio	22.4%
Tier 1 ratio	21.2%
Tier 2 ratio	1.2%

5. Use of estimates and judgements

(a) Key sources of estimation uncertainty

(i) Allowances for credit losses

Impairment losses are evaluated as described in accounting policy 3 (a) (vii).

The Bank evaluates impairment on loans and advances and investments on an on-going basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognised in the income statement. 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

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

5. Use of estimates and judgements *(continued)*

(a) Key sources of estimation uncertainty (continued)

(i) Allowances for credit losses (continued)

these cash flows, management makes judgements about the 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.

In addition to specific impairment charge against individually impaired assets, the Bank 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 loss allowances, management considers factors such as credit quality, portfolio size, concentrations 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 experience and current economic conditions.

(ii) Determining fair values

The determination of fair value for financial assets and liabilities of which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(a)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degree of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument (Note 6).

(b) Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

(i) Financial assets and liabilities classification

The Bank's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances, such as in classifying financial assets as at fair value through profit or loss or as available-for-sale, the Bank has determined that it meets the description as set out in accounting policy 3(a)(ii).

(ii) Contingent liability arising from litigations

Due to the nature of its operations, the Bank 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.

(iii) Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in accounting policy 3 (a)(vi).

Fair value hierarchy:

Fair value measurements recognised in the statement of financial position

The Bank 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 an active market for an identical instrument. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the

5. Use of estimates and judgements *(continued)*

(b) Critical accounting judgements in applying the Bank's accounting policies (continued)

Fair value measurements recognised in the statement of financial position (continued)

quoted price is readily available, and the price represents actual and regularly occurring market transactions.

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; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 2 Freehold land and properties include land and buildings completed and have been re-valued using the revaluation method under IAS 16. Refer (Note 13) in respect of the valuation technique used.

Level 3: Valuation techniques using significant 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 for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market priced or dealer priced quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates. 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.

Observable prices and model inputs are usually available in the market for listed equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of 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.

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
At 31 December 2017				
Available-for-sale investments *(Note 9)*	1,222,919	-	35,386	1,258,305
	1,222,919	**-**	**35,386**	**1,258,305**
At 31 December 2016				
Available-for-sale investments *(Note 9)*	900,284	-	45,209	945,493
	900,284	**-**	**45,209**	**945,493**

5. Use of estimates and judgements *(continued)*

(b) *Critical accounting judgements in applying the Bank's accounting policies (continued)*

Fair value measurements recognised in the statement of financial position (continued)

Although the Bank believes that its estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values.

Level 3 reconciliation

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

	2017	2016
	AED'000	AED'000
At 1 January	**45,209**	63,643
Additions during the year	**-**	-
Redemption / sale during the year	**(9,859)**	(10,000)
Allowance for impairment	**-**	(8,424)
Translation gain	**-**	(10)
Change in fair value	**36**	-
Reversal of impairment	**-**	-
At 31 December	**35,386**	45,209

Accounting classifications and fair values

All financial assets and liabilities are measured at amortised cost except for financial assets 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 is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm›s length transaction. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Bank 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 fair values of due from banks, customers' deposits and due to banks that are predominantly short-term in tenure and issued at market rates are considered to reasonably approximate their book value.

The Bank estimates that the fair value of its loans and advances portfolio is not materially different from its book value since the majority of loans and advances carry floating market rates of interest and are frequently re-priced. For loans considered impaired, expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time of collection, the net result of which is not materially different from the carrying value.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

6. Financial assets and liabilities

The table below sets out the carrying amounts and fair values of the Bank's financial assets and liabilities as at 31 December 2017:

	Financial assets at fair value through profit and loss	Available-for-sale investment AED'000	Loans and advances AED'000	Amortised cost AED'000	Total carrying amount AED'000	Fair value AED'000
Cash and balances with the Central Bank of the UAE	-	-	-	1,867,514	**1,867,514**	1,867,514
Due from banks and financial institutions	-	-	-	2,208,223	**2,208,223**	2,208,223
Available-for-sale investments	-	1,258,305	-	-	**1,258,305**	1,258,305
Loans and advances	-	-	12,577,543	-	**12,577,543**	12,577,543
Other assets	-	-	-	217,729	**217,729**	217,729
	-	**1,258,305**	**12,577,543**	**4,293,466**	**18,129,314**	**18,129,314**
Customers' deposits	-	-	-	12,573,192	**12,573,192**	12,573,192
Due to banks and financial institutions	-	-	-	2,070,334	**2,070,334**	2,070,334
Other liabilities	-	-	-	314,979	**314,979**	314,979
	-	**-**	**-**	**14,958,505**	**14,958,505**	**14,958,505**

The table below sets out the carrying amounts and fair values of the Bank's financial assets and liabilities as at 31 December 2016:

	Financial assets at fair value through profit an loss	Available-for-sale investment AED'000	Loans and advances AED'000	Amortised cost AED'000	Total carrying amount AED'000	Fair value AED'000
Cash and balances with the Central Bank of the UAE	-	-	-	1,736,084	**1,736,084**	1,736,084
Due from banks and financial institutions	-	-	-	3,458,323	**3,458,323**	3,458,323
Available-for-sale investments	-	945,493	-	-	**945,493**	945,493
Loans and advances	-	-	10,539,200	-	**10,539,200**	10,539,200
Other assets	-	-	-	151,574	**151,574**	151,574
	-	**945,493**	**10,539,200**	**5,345,981**	**16,830,674**	**16,830,674**
Customers' deposits	-	-	-	10,725,721	**10,725,721**	10,725,721
Due to banks and financial institutions	-	-	-	2,970,768	**2,970,768**	2,970,768
Other liabilities	-	-	-	231,894	**231,894**	231,894
	-	**-**	**-**	**13,928,383**	**13,928,383**	**13,928,383**

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

7. Cash and balances with the Central Bank of the UAE

	2017 AED'000	2016 AED'000
Cash in hand	**64,394**	42,640
Balances with the Central Bank of the UAE	**1,099,664**	960,153
Cash reserve with Central Bank of the UAE	**703,456**	733,291
	1,867,514	1,736,084

Cash reserve deposits are not available for the day-to-day operations of the Bank.

8. Due from banks and financial institution

	2017 AED'000	2016 AED'000
Current, call and notice deposits	**501,679**	622,363
Fixed deposits	**1,730,544**	2,855,960
Gross balance	**2,232,223**	3,478,323
Allowance for impairment	**(24,000)**	(20,000)
Net balance	**2,208,223**	3,458,323
By location:		
Within the UAE	**680,098**	909,163
Outside the UAE	**1,528,125**	2,549,160
	2,208,223	3,458,323

9. Available-for-sale investments

	2017 AED'000	2016 AED'000
Available-for-sale investments		
Gross investments	**1,289,034**	998,446
Allowance for impairment	**(30,729)**	(52,953)
	1,258,305	945,493

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

9. Available-for-sale investments *(continued)*

	2017 AED'000	2016 AED'000
Investment in quoted UAE securities (bonds)	**920,428**	854,524
Investment in quoted UAE securities (equity)	**58,948**	45,760
Investment in quoted GCC (excl. UAE) securities (Bonds)	**237,142**	
Investment in quoted GCC (excl. UAE) securities (Equity)	**6,401**	
Investments in unquoted overseas securities (equity ivestments)	**14,722**	21,387
Investment in unquoted UAE entity (contingent convertible instrument)	**20,377**	23,570
Investment in overseas funds	**287**	252
	1,258,305	945,493
	==========	==========

The above available-for-sale investments are denominated in UAE Dirhams and US Dollar. Unquoted securities are measured at fair value based on the investee company's net asset value as of the year end.

Movements in available-for sale investments during the year were as follows:

	2017 AED'000	2016 AED'000
Fair value at 1 January	**945,493**	857,821
Purchase of available-for-sale investments	**603,533**	208,293
Sale of available-for-sale investments	**(282,069)**	(107,960)
Change in fair value	**1,828**	10,054
Amortisation of bonds	**-**	(9,832)
Allowance for impairment	**(10,480)**	(12,873)
Translation gain	**-**	(10)
Fair value at 31 December	**1,258,305**	945,493
	==========	==========

The maximum exposure to credit risk at the reporting date is the carrying value of the securities classified as available-for-sale.

Included within the balance of the available-for-sale investment is an impairment provision amounting to AED 4.58 million *(2016: AED 24.9 million)* taken against overseas investment.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

10. Loans and advances

	2017 AED'000	2016 AED'000
Loans and advances	**11,801,558**	10,632,413
Islamic financing	**1,736,154**	770,568
Gross loans and Islamic financing	**13,537,712**	11,402,981
Deferred profit	**(29,507)**	(25,276)
Allowance for impairment	**(819,080)**	(727,927)
Interest suspended	**(111,582)**	(110,578)
Net loans and advances	**12,577,543**	10,539,200
	==========	==========

Islamic finance breakdown

	2017 AED'000	2016 AED'000
By type :		
Ijarah	**965,305**	386,607
Murabaha	**770,849**	383,961
Gross Islamic financing	**1,736,154**	770,568
Deferred profit	**(29,507)**	(25,276)
Profit in suspense	**(332)**	-
Net Islamic financing	**1,706,315**	745,292
	==========	==========

The maturities of minimum Ijara payments

	2017 AED'000	2016 AED'000
Less than one year	**169,315**	73,756
Between one year and five years	**629,564**	259,672
More than five years	**166,426**	53,179
Gross Ijara financing	**965,305**	386,607
	==========	==========

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

10. Loans and advances *(continued)*

An analysis of gross loans and advances by segment at the reporting date is shown below:

	2017 AED'000	2016 AED'000
Corporate segment	12,740,387	10,908,553
Consumer segment	797,325	494,428
Gross loans and Islamic financing	13,537,712	11,402,981
	==========	==========

The movement in the allowance for impairment during the year is shown below:

	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
2017			
At 1 January	308,479	419,448	727,927
Net charge for the year	150,977	43,595	194,592
Recoveries	(2,267)	(27,688)	(29,955)
Net amounts written off	(73,484)	-	(73,484)
At 31 December	383,725	435,355	819,080
	==========	==========	==========

	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
2016			
At 1 January	292,863	323,831	616,694
Net charge for the year	102,020	73,023	175,043
Recoveries	(32,385)	(5,000)	(37,385)
Net amounts written off	(36,397)	(5,715)	(42,112)
Transfer from impairment on due from Bank	-	15,687	15,687
Transfer from individual impairment to collective impairment	(17,622)	17,622	-
At 31 December	308,479	419,448	727,927
	==========	==========	==========

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

11. Investment properties

	Investment properties			*Investment properties under development*			
	Land AED'000	Building AED'000	Total AED'000	Land AED'000	Work-in-progress AED'000	Total AED'000	Grand total AED'000
Cost							
At 1 January 2016	168,523	319,926	**488,449**	669,551	19,404	**688,955**	**1,177,404**
Additions	-	-	**-**	-	25	**25**	**25**
Disposals	-	-	**-**	-	-	**-**	**-**
Transfers to property and equipment	-	-	**-**	-	-	**-**	**-**
At 31 December 2016	168,523	319,926	**488,449**	669,551	19,429	**688,980**	**1,177,429**
Additions	-	-	**-**	-	1,884	**1,884**	**1,884**
Sale of investment property	-	-	**-**	(81,450)	-	**(81,450)**	**(81,450)**
Transferred to property and equipment	-	-	**-**	-	(6,868)	**(6,868)**	**(6,868)**
At 31 December 2017	**168,523**	**319,926**	**488,449**	**588,101**	**14,445**	**602,546**	**1,090,995**
Accumulated depreciation							
At 1 January 2016	-	61,069	**61,069**	-	-	**-**	**61,069**
Charges for the year	-	10,694	**10,694**	-	-	**-**	**10,694**
Disposals	-	-	**-**	-	-	**-**	**-**
At 31 December 2016	-	71,763	**71,763**	-	-	**-**	**71,763**
Charges for the year	-	10,664	**10,664**	-	-	**-**	**10,664**
At 31 December 2017	-	82,427	**82,427**	-	-	**-**	**82,427**
Net carrying amount							
At 31 December 2016	168,523	248,163	**416,686**	669,551	19,429	**688,980**	**1,105,666**
Less: allowance for impairment	(52,323)	(24,363)	**(76,686)**	(323,537)	(19,404)	**(342,941)**	**(419,627)**
	116,200	**223,800**	**340,000**	**346,014**	**25**	**346,039**	**686,039**
At 31 December 2017	168,523	237,499	**406,022**	588,101	14,445	**602,546**	**1,008,568**
***Less:* allowance for impairment**	(52,323)	(23,699)	**(76,022)**	(296,918)	(14,420)	**(311,338)**	**(387,360)**
	116,200	**213,800**	**330,000**	**291,183**	**25**	**291,208**	**621,208**

Towards the end of 2017, the Bank carried out a further evaluation exercise of the investment properties and investment properties under development through qualified, independent external valuers, the valuation methodologies used by the external valuers include:

Direct Comparable method: This method seeks to determine the value of the property from transactions of comparable properties in the vicinity applying adjustments to reflect differences to the subject property.

Investment method: This method is used to assess the value of the property by capitalising the net operating

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

11. Investment properties *(continued)*

income of the property at an appropriate yield an investor would expect for an investment of the duration of the interest being valued. A yield range of 4% to 5% has been applied, together with allowances for rent fee periods.

Income capitalisation method: This method includes development of valuation model that applies a rate to an amount that represents a measure of economic income (e.g. free cash flows to firm or free cash flows to equity) to arrive at an estimate of present value. The model is useful as a cross-check when other approaches have been used.

All investment properties of the Bank are located in the U.A.E.

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

	2017 AED'000	2016 AED'000
Rental income	**42,429**	44,610
Direct operating expenses	**(11,319)**	(10,445)
Allowance for impairment	**(414)**	-
	30,696	34,165

The movement in the allowance for impairment during the year is shown below:

	2017 AED'000	2016 AED'000
At 1 January	**419,627**	374,240
Charge for the year	**8,639**	53,721
Recoveries during the year	**(4,627)**	(8,334)
Net charge for the year	**4,012**	45,387
Disposal for the year	**(36,279)**	-
At 31 December	**387,360**	419,627

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

12. Other assets

	2017 AED'000	2016 AED'000
Acceptances	**25,273**	14,854
Interest receivable	**143,166**	93,422
Sundry debtors and other assets	**31,418**	26,220
Property acquired in settlement of debt	**17,872**	17,078
	217,729	151,574

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date, and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability (Note 16) in the statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

13. Property, plant and equipment

	Freehold land AED'000	Buildings AED'000	Total buildings and lands AED'000	Project- in-progress AED'000	Furniture equipment vehicles & AED'000	Total AED'000
Cost						
At 1 January 2016	**176,016**	**334,204**	**510,220**	**3,515**	**83,948**	**597,683**
Additions	-	4,563	**4,563**	6,643	4,829	**16,035**
Transfers	-	-	**-**	(3,273)	3,273	**-**
Loss on revaluation	(47,955)	(47,275)	**(95,230)**	-	-	**(95,230)**
At 31 December 2016	**128,061**	**291,492**	**419,553**	**6,885**	**92,050**	**518,488**
At 1 January 2017	128,061	291,492	**419,553**	6,885	92,050	**518,488**
Additions	-	-	**-**	49,126	11,150	**60,276**
Transfers	-	-	**-**	(21,040)	-	**(21,040)**
Sale of property and equipment	(5,286)	(14,057)	**(19,343)**	-	-	**(19,343)**
Elimination of accumulated depreciation on revaluation	-	(9,192)	**(9,192)**	-	-	**(9,192)**
Loss on revaluation	(653)	(5,808)	**(6,461)**	-	-	**(6,461)**
At 31 December 2017	**122,122**	**262,435**	**384,557**	**34,971**	**103,200**	**522,728**
Accumulated depreciation						
At 1 January 2016	-	179,388	**179,388**	-	61,153	**240,541**
Charge for the year	-	1,165	**1,165**	-	9,253	**10,418**
At 31 December 2016	**-**	**180,553**	**180,553**	**-**	**70,406**	**250,959**
At 1 January 2017	-	180,553	**180,553**	-	70,406	**250,959**
Charge for the year	-	563	**563**		10,168	**10,731**
Disposals	-	(1,560)	**(1,560)**	-	-	**(1,560)**
At 31 December 2017	**-**	**179,556**	**179,556**	**-**	**80,574**	**260,130**
Net carrying amount						
At 31 December 2016	128,061	110,939	**239,000**	6,885	21,644	**267,529**
At 31 December 2017	**122,122**	**82,879**	**205,001**	**34,971**	**22,626**	**262,598**

The freehold land and buildings were valued towards year end by qualified, independent external valuers. The valuation methodologies used by the external valuers include:

Direct comparable method: This method seeks to determine the value of the property from transactions of comparable properties in the vicinity applying adjustments to reflect differences to the subject property.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

13. Property, plant and equipment *(continued)*

Investment method: This method is used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield an investor would expect for an investment of the duration of the interest being valued. A yield range of 4% to 5% has been applied, together with allowances for rent fee periods. The valuers have estimated the amount of the operating income of the property by reference to similar commercial properties which have similar floor sizes and other specifications.

Income capitalisation method : This model applies a rate to an amount that represents a measure of economic income (e.g. free cash flows to firm or free cash flows to equity) to arrive at an estimate of present value. The model is useful as a cross-check when other approaches have been used.

The fair value of the buildings as at 31 December 2017, as provided by the valuer was AED 205 million *(2016: AED 239 million),* resulting in a decrease in the revaluation reserve by AED 15.7 million *(2016: AED 89.2 million).* The table below represents the movement in the revaluation reserve of the freehold land and building:

	2017 AED'000	2016 AED'000
Revaluation reserve – freehold land and buildings		
At 1 January	**160,001**	249,177
Fair value adjustment	**(6,460)**	(76,075)
Elimination of revaluation gain on property and Equipment	**(9,193)**	(13,101)
At 31 December	**144,348**	160,001
	==========	==========

At 31 December 2017, total cost of AED 210 million *(2016: AED 210 million)* of fully depreciated assets was included in freehold land and buildings.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

14. Customers' deposits

	2017 AED'000	2016 AED'000
By type:		
Notice and time deposits	**6,711,398**	4,113,661
Current accounts	**3,792,361**	4,088,614
Savings accounts	**190,783**	105,578
	10,694,542	**8,307,853**
Islamic deposits		
By type:		
Current account deposits	**246,450**	293,303
Mudaraba term and savings deposits	**3,423**	54,300
Wakala deposits	**1,628,777**	2,070,265
	1,878,650	2,417,868
Total deposits	**12,573,192**	10,725,721
By sector:		
Government sector	**2,726,304**	3,110,932
Private sector	**7,113,283**	5,124,991
Individuals	**2,733,605**	2,489,798
	12,573,192	10,725,721

15. Due to banks

	2017 AED'000	2016 AED'000
Current, call and notice deposits	**154,529**	435,602
Fixed deposits	**1,915,805**	2,535,166
	2,070,334	2,970,768
By location:		
Within the UAE	**807,425**	603,180
Outside the UAE	**1,262,909**	2,367,588
	2,070,334	2,970,768

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

16. Other liabilities

	2017 AED'000	2016 AED'000
Acceptances	**25,273**	14,854
Interest payable	**100,309**	45,100
Provision for employees' end of service benefits	**20,377**	27,736
Others	**169,020**	144,204
	314,979	231,894

The movement in the provision for employees' end of service benefits was as follows:

	2017 AED'000	2016 AED'000
At 1 January	**27,736**	26,768
Provided during the year	**10,712**	8,392
Paid during the year	**(18,071)**	(7,424)
	20,377	27,736

17. Capital and reserves

Share capital
The authorised, issued and fully paid share capital of the Bank comprises 75,000 ordinary shares of AED 20,000 each *(2016: 75,000 shares of AED 20,000 each).*

Statutory reserve
In accordance with UAE Commercial Companies Law No. (8) of 1984 (as amended) and the Bank's Articles of Association, 10% of the profit for each year is transferred to a statutory reserve until this reserve equals 50% of the paid-up share capital. The statutory reserve is not available for distribution. There has been a transfer to the reserve during the year of AED 36.3 million *(2016: AED 43.27 million)*.

Special reserve
In accordance with Union Law No. (10) of 1980 concerning the Central Bank of the UAE, the Monetary System and the Organisation of Banking, 10% of the profit for each year is transferred to a special reserve until this reserve equals 50% of the paid-up share capital. The special reserve is not available for distribution. There has been a transfer to the reserve during the year of AED 36.3 million *(2016: AED 43.27 million)*.

General reserve
The general reserve has been established to enhance the equity base of the Bank. Transfers to the general reserve are made upon the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the Shareholders.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

17. Capital and reserves *(continued)*

Revaluation reserve

The revaluation reserve includes gains on revaluation of freehold land and buildings, amounting to AED 144 million *(2016: AED 160 million)*. During the year 2017 a revaluation loss of AED 15.7 million *(2016: gain of AED 89.2 million)* was added to the reserve, resulting from the revaluation exercise performed over freehold land and buildings *(Note 13)*.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, until the investments are derecognised or impaired.

	2017 AED'000	2016 AED'000
Fair value reserve – available-for-sale investments		
At 1 January	**(4,461)**	(14,515)
Net gain recognised	**1,828**	10,054
At 31 December	**(2,633)**	(4,461)
	==========	==========

Dividends

At the Annual General Meeting (AGM) held on 30th March, 2017, the Shareholders of the Bank approved distributing dividends of AED 2,000 per ordinary share *(31 December 2016: AED 2,000 per ordinary share)* which were paid on 9th April, 2017. The issued and paid up share capital as at 31 December 2017 is comprised of 75,000 thousand ordinary shares of AED 20,000 each *(31 December 2016: 75,000 thousand ordinary shares of AED 20,000 each)*.

18. Interest income

	2017 AED'000	2016 AED'000
Loans and advances to customers	**582,420**	523,452
Investment securities	**35,013**	30,483
Due from banks	**36,420**	26,335
	653,853	580,270
	==========	==========

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

19. Interest expense

	2017 AED'000	2016 AED'000
Customers' deposits	**132,827**	67,967
Due to banks	**12,218**	12,368
	145,045	80,335

20. Income from Islamic financing contracts

	2017 AED'000	2016 AED'000
Murabaha	**30,922**	16,110
Ijarah	**34,219**	18,652
	65,141	34,762

21. Depositors' share of profit

	2017 AED'000	2016 AED'000
Mudaraba deposits and saving accounts	**184**	90
Wakala	**45,759**	34,317
	45,943	34,407

22. Net fee and commission income

	2017 AED'000	2016 AED'000
Fee and commission income		
Letters of credit	**46,782**	76,753
Letters of guarantee	**23,986**	22,350
Retail and corporate lending fees	**20,632**	12,527
Transfers and other fees	**2,387**	3,074
Murabaha finance	**2,850**	1,783
Others	**28,138**	23,936
Total fee and commission income	**124,775**	140,423

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

22. Net fee and commission income *(continued)*

Fee and commission expense		
Brokerage commission	**(1,358)**	(3,186)
Handling charges	**(672)**	(568)
Other commission	**(5,673)**	(4,401)
Total fee and commission expense	**(7,703)**	(8,155)
Net fee and commission income	**117,072**	132,268

23. Net foreign currency exchange gain

	2017 AED'000	2016 AED'000
Trading and retranslation gain	**10,645**	10,407
Dealings with customers	**3,973**	4,356
	14,618	14,763

24. Other operating income

	2017 AED'000	2016 AED'000
Rental income, net	**30,696**	34,165
Others	**7,167**	30
	37,863	34,195

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

25. General, administration and other operating expenses

		2017 AED'000	2016 AED'000
Staff costs	(i)	**156,460**	168,583
Depreciation	(ii)	**21,395**	21,081
BOD expenses		**14,055**	13,130
Others	(iii)	**41,398**	37,022
		233,308	239,816

(i) The number of employees as at 31 December 2017 was 354 employees *(2016: 346 employees).*

Staff costs are divided as follows:

	2017 AED'000	2016 AED'000
Salaries and wages	**75,574**	82,031
End of service benefits	**3,836**	5,371
Other benefits	**77,050**	81,181
	156,460	168,583

(ii) Depreciation comprises of depreciation charge for the year on property and equipment amounting to AED 10.7 million *(2016: AED 10.4 million)* and investment properties amounting to AED 10.6 million *(2016: AED 10.7 million)* net of depreciation amount related to valuation.

(iii) The Bank has paid AED 598,000 as social contributions during the year *(2016: AED 1,099,426).*

26. Net impairment charge on financial assets

	2017 AED'000	2016 AED'000
Provision for impairment on:		
Collective impairment during the year	**(43,595)**	(73,023)
Collective impairment for due from banks	**(4,000)**	-
Specific provision during the year	**(150,997)**	(102,020)
Recovery of loan loss provisions	**29,955**	37,385
Recovery of loans previously written - off	**39,936**	180,260
	(128,701)	42,602

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

26. Net impairment charge on financial assets *(continued)*

The balance of recoveries includes write back of written off loans and advances including the related suspended interest, and recoveries of current active non-performing loans and advances that had previously been provided for.

27. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts maturing within three months of the date of the acquisition / placement:

	2017 AED'000	2016 AED'000
Cash and balances with the Central Bank of the UAE	**1,867,514**	1,736,084
Due from banks	**2,208,223**	3,458,323
Due to banks	**(2,070,334)**	(2,603,468)
	2,005,403	2,590,939
Less: cash reserve with Central Bank of the UAE	**(703,456)**	(733,291)
Cash and cash equivalents	**1,301,947**	1,857,648

28. Commitments and contingencies

	2017 AED'000	2016 AED'000
Letters of credit	**2,941,045**	2,928,179
Letters of guarantee	**4,299,108**	4,334,391
	7,240,153	7,262,570
Commitments at the reporting date are shown below:		
Un-drawn commitments to extend credit	**5,523,472**	4,684,940
Commitment for future capital expenditure	**8,115**	12,674
Commitments to extend financial guarantees	**106,198**	115,198
	5,637,785	4,812,812
Total commitments and contingencies	**12,877,938**	12,075,382

Irrevocable undrawn facilities commitments as at 31 December 2017 amounted to AED 517 million *(2016 AED 846 million)*

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

28. Commitments and contingencies *(continued)*

Letters of credit and guarantee commit the Bank 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.

All of the Bank's operating lease contracts are renewable annually.

29. Related parties

Identity of 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 and operational decisions. The Bank's shareholding pattern is as follows:

	Shareholding percentage (%)	
	2017	2016
Emirates Investment Authority	**42.28**	42.28
Libyan Foreign Bank	**42.28**	42.28
Banque Exterieure d'Algerie	**15.44**	15.44

As per the general assembly meetings held on 27 March 2017, the representative of the government of UAE declared the decree of Prime minister dated 29 November 2016, to transfer the government of UAE portion of ownership from Ministry of Finance to Emirates Investments Authority.

In the normal course of business, the Bank has various transactions with its related parties. Banking transactions are entered into with related parties on terms and conditions approved by either the Bank's management or the Board of Directors.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

29. Related parties *(continued)*
Identity of related parties (Continued)

The volume of related party transactions, outstanding balances and related expenses and income for the year were as follows:

	Key management personnel		Others	
	31 December 2017 AED'000	31 December 2016 AED'000	**31 December 2017 AED'000**	31 December 2016 AED'000
Balances				
Loans and advances	**26,191**	21,648	**4,630**	5,028
Deposits	**24,884**	12,053	**2,820,273**	2,048,325
Commitments and contingencies	**-**	-	**2,881,989**	2,641,576
Transactions				
Board of Directors' remuneration	**12,000**	10,840	**-**	-
Salaries and benefits	**18,880**	18,783	**-**	-
Post-employment benefits	**1,301**	1,100	**-**	-
Interest income	**483**	41	**2**	-
Interest expense	**282**	25	**23,597**	4,291
Fee and commission	**-**	-	**7,336**	6,281
Dividend paid	**-**	-	**150,000**	150,000

Included within others above are balances and transactions with the Bank's Shareholders and parties related to them.

Loans and advances issued to related parties are repayable over one year and bear interest rates ranging between 4% and 7% *(2016: 4% to 7%)*. No collateral is under lien on loans and advances to related parties. No provisions have been passed against loans and advances to related parties.

Arab Bank for Investment and Foreign Trade PJSC (AL MASRAF)

30. Earnings per share

Basic earnings per share

The calculation of basic profit per share at 31 December 2017 was based on the profit attributable to ordinary Shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	2017	2016
Profit for the year (AED'000)	**363,179**	432,668
Weighted average number of ordinary shares	**75,000**	75,000
Earnings per share (AED'000)	**4.84**	5.77

There were no potentially dilutive securities as at 31 December 2017 or 2016, and accordingly, diluted earnings per share are the same as basic earnings per share.

31. Legal proceedings

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

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