ANNUAL REPORT 2018

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

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

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VISION STATEMENT

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

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

BOARD OF DIRECTORS

Mr. Farhat Omar Ben Gdara
Chairman

Mohamed Saif Al-Suwaidi
Deputy Chairman

Yaqoob Yousuf Hassan Janahi
Director

Mr. Brahim Semid
Director

Ahmed Saeed Bin Braik
Director

Mustapha Makhlouf
Director

Amr Yaklaf Amr Al Hgag
Director

CHAIRMAN'S MESSAGE

Farhat Omar Ben Gdara
Chairman

Dear Shareholders,

On behalf of the Board of Directors, it is my privilege to present to you the Annual Report of Arab Bank for Investment and Foreign Trade (Al Masraf), for the financial year ending December 31, 2018.

I am pleased to report that despite the difficult economic environment, Al Masraf was able to outperform its peers on a number of financial indicators as a result of the substantial effort exerted in all our activities and the strategic decisions adopted by the Bank's management.

Al Masraf has posted a strong set of results for 2018 and net profit increased to AED 483 million, representing 33% growth year on year. The total revenues reached AED 809 million an increase of 11% over previous year. The Net Operating Income increased by 9.5% to AED 543 million compared to previous year. The Banks Loans and Advances increased by 11% to reach AED 13.9 billion, together with a 13% increase in Customer Deposits which reached AED 14.15 billion. In addition, the Bank achieved a 24% increase in net interest income and Islamic financing to AED 654 million. Operating expenses were managed efficiently and the cost to income ratio stood at 32.8 % attributable to ongoing expense management and improved efficiency. Return on Average Equity stood at 32.8% reflecting superior performance on deployed capital and Return on Average Assets at 2.52% amongst the highest in the industry.

The UAE, both at a federal and emirate level, has announced a host of reforms and initiatives to improve economic growth and improve competitive positioning of the country. This includes a reduction in license fees, AED 50 billion stimulus package,10-year visas for investors and professionals among others. Under the vision of the country's prudent leadership, the UAE has quickly grown to become the second biggest economy in the Arab world and a prominent regional as well as international trade and investment hub and we expect the reforms and initiatives to further accelerate growth in the country.

The UAE's banking sector maintained steady asset growth, improved profitability and asset quality in 2018 and is expected to deliver good performance in 2019. After going through a three-year cycle of provisioning and deleveraging from risky sectors and asset classes, most banks have cleaned up the legacy non-performing assets from their balance sheets. Improved asset quality and stronger loan yields are expected to lift the margins of banks that can quickly reprice loans in the context of the rising interest rate environment.

Throughout the year, we continued our efforts to strengthen the foundations of our corporate governance as we firmly believe that strong governance is the key to our long-term business performance and reinforces our reputation in the market as a transparent organization.

Additionally, as part he Bank's corporate socialresponsibility objectives, Al Masraf has committed to continue to promote living healthier and happier lives for society, citizens, customers, shareholders, and the communities in which the organization does business. Our CSR policy is intended to promote a culture of social responsibility within the organization and contribute to the sustainable creation of value for all stakeholders.

In order to proactively address the possible impact of regulatory and market changes on the bank's business strategy and to ensure maintaining the bank's steady growth, Al Masraf has conducted a complete strategy refresh exercise in 2018. The refresh exercise has come up with a revised three years strategy and a clear roadmap for achieving it. While the major business focus of the strategy remains unchanged, the revised strategy includes several initiatives that will help the bank expanding its products and services offerings and diversifying its business without compromising on quality. In parallel, a comprehensive digital strategy has been formulated to accompany our business ambitions and to provide our customers with leading innovative solutions.

During the year we continued to strengthen our capabilities to support business growth. This involved a renewed focus to closely align people, products, processes and systems across the organization. We enhanced our human capital and information technology infrastructure, and further streamlined back office processes and procedures to achieve operational cost efficiencies. We strengthened our corporate governance framework to ensure ongoing compliance in an evolving regulatory environment; and intensified our focus on a prudent risk management approach, to ensure that the Bank remains methodical and resilient in the face of volatile economic and market conditions.

We expect 2019 to be another challenging year for financial services, however, the UAE's economy remains well-diversified, strong and growing. Monetary policy remains accommodative. As a country and a market, the UAE is strongly positioned in the regional and global economy, and we are confident in its future. The Bank stands by its enduring commitment to the economic development of the UAE.

We are optimistic that our focused strategy and diversified business model will enable us to capitalize and grow the bank across all businesses and continue to create long-term value for our stakeholders. We will further enhance our initiatives of cost efficiency and continue to develop our prudent risk assessment models, while further diversifying revenue streams. We will expand and continue to invest in alternate channels and innovative new product launches. We remain vigilant to any unexpected changes in the market environment. We believe that through our prudent and ethical approach to business we have managed to steer a steady path through the challenges of recent years. Management has the full support of the Board as it leads the Bank through this challenging economic environment. Together we will continue to monitor conditions closely and will take actions as necessary.

On behalf of the Board and all at Al Masraf, I extend our most sincere appreciation and gratitude to His Highness Sheikh Khalifa bin Zayed Al Nahyan, the UAE President and Ruler of Abu Dhabi; to His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai; to His Highness Sheikh Mohammed bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces; and to the UAE Central Bank for their constant support.

I also extend the continued gratitude and appreciation of the Board to our shareholders, our valued customers, and Al Masraf executive management team and its employees for their continued dedication and commitment.

Farhat Omar Ben Gdara
Chairman

CEO'S MESSAGE

Faisal H. Galadari
Chief Executive Officer (CEO)

I am pleased to announce that 2018 was yet another year of outstanding performance for the bank, during which we proved ourselves capable of delivering results even in a testing environment. This outcome is attributed to the efficiency of our business strategy, which is evident through robust performance by all business segments in the year 2018. Building on its success throughout the previous years, Al Masraf achieved significant performance based on its ambitious strategy to meet customer's demands and to provide superior returns for our shareholders.

The Year 2018 was a challenging for the UAE banking industry. Al Masraf's ability to achieve continuous growth, despite the increasingly competitive environment prevailing in the market is a clear proof of its distinguished performance.

During the year 2018, Al Masraf reviewed and refreshed its Business Strategy to align banks strategy to changing regulatory & business environment with increased focus on digital initiatives and leverage on bank's investment in infrastructure and technology. The refreshed strategy whilst is a continuation of the previous five years (2017 to 2021) strategy, refocuses on new business initiatives, product proposition and customer segmentation in the short to medium term (2019-2021). This will allow the bank to maximize its earnings potential in the coming three years and create significant value for all its stakeholders.

The net profits for the Year 2018 stood at AED 483 million, an impressive increase of 33% over 2017 which was a result of cautious approach to asset growth through robust risk management practices as well as implementation of a clear, viable and unique strategy throughout the past three years. The results of 2018 saw a growth of 11% in the total Operating Revenues, which increased to AED 809 million compared to AED 729 million in 2017. Al Masraf's operating results are attributed to a growth of 11% in the loans portfolio to reach AED 13.9 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 the year 2018 increased to AED 14 billion an increase of 13% and the total assets of the bank increased by 12% to reach AED 21 billion. Taken together, these indicators confirm the significant development Al Masraf has gone through during the financial year 2018 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 is a result of the Bank's significant financial solvency that exceeds the Central Bank requirements and Basel Committee standards. Furthermore, the bank's Capital Adequacy Ratio stood at 20.7%. 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.

These results reflect the robust nature of our strategy and the strength of our customer focused culture. Given the economic headwinds, we risk-managed our growth by focusing on select segments.

During the year, we inaugurated our new full banking services Corporate Hub in a prime location on Sheikh Zayed Road in Dubai, covering an area of 25,000 square feet and administered by a cluster of experts having comprehensive proficiency in corporate and business service banking. Equipped with state-of-the-art banking technology, conference rooms and elegant facilities to host customers' events, the Corporate Hub offers full conventional financial solutions and innovative Islamic banking services that meet all the needs of our clients and help them realize their financial goals. The opening of the new Corporate Hub confirms our commitment to provide our clients with a banking experience that exceeds the best international standards.

The Corporate and Commercial Banking Division has recorded a strong performance in 2018, with good growth in fee income and loans and deposits, while maintaining a sharp focus on asset quality. We continue to gear up to ensure we are delivering a seamless customer experience and continually upgrade our excellent suite of banking products and services to help our clients manage their businesses and financial resources effectively.

Al Masraf recognizes the contribution of SMEs in the nation's economy and understands their needs for innovative and effective banking solutions. The SME Banking unit has a team of experienced customer-focused relationship managers with sector experience who offer a wide range of products suitably structured to the needs and profile of each SME. The SME team's key objectives are to help each business reach their fullest potential and support them with customized product packages, responsive services and access to financial capital and expert advice.

In order to further enhance customer experience and increase our market presence, we continued to focus on developing innovative products and services for our conventional and Islamic clients. During the year 2018, we launched our Wealth Management Unit and introduced tailor-made solutions that address the specific needs of our high net-worth clients. In line with our strategy of providing outstanding rewards and benefits, we launched the "Save and Win Gold" promotion, which aims to promote a culture of savings and planning for the future among customers. We also launched four types of Shari'a - Compliant MasterCard cards designed to provide customers with superior advantages and a variety of innovative and value-added services as part of our continuous efforts to diversify our products and meet customer needs.

In line with our strategy, we continued to recruit staff required to service its growing business while retaining focus on enhancing employee productivity and ensuring cost effectiveness. Al Masraf continues it's efforts in advocating recruitment and development of local talents. Al Masraf now employs 99 UAE Nationals resulting in an Emiratization ratio of more than 25.5%. We continued to focus on investing in staff training, learning and development with the intent to improve the skills of our employees and to drive the bank towards delivering the best customer experience.

With ever changing banking landscape, Digital innovation continues to be an integral part of our business strategy and we are pleased to be the first bank in UAE to launch, in collaboration with the Ministry of Finance, an E-Guarantee Service that issues Workers Guarantees online. We will continue our keen efforts to enhance the experience of bank customers by providing the smart services necessary to save time and efforts reinforcing the concepts of transparency and efficiency.

Similar, to previous years, Corporate Social Responsibility (CSR) remains one of our top priorities. In the year 2018 our CSR program covered a wide range of support initiatives: In cooperation with Mediclinic, we organized a health awareness campaign for the Bank's staff in which we conducted free health screenings and provided medical advice on how to live a healthy, productive and balanced lifestyle. Together with Al Noor Hospital, we ran a Breast Cancer awareness campaign at our head office for staff and clients. Amongst many other initiatives conducted throughout the year, the bank also sponsored various conferences and events that enhance the position of UAE's financial sector. Al Masraf also participated in the UAE leading health initiative "Dubai Fitness Challenge" to encourage a healthy lifestyle and general well-being amongst the employees. Al Masraf also participated in the majority of career fairs in the UAE in an effort to attract Emirati talents and support localization policies.

Our achievements during the year 2018 reflect our tireless efforts and dedication in our work to improve efficiency and reduce costs in order to achieve the highest levels of excellence and leadership in all our transactions and activities.

We expect the heightened economic challenges to persist into 2019 and beyond. However, we believe that the Bank's proven strategy, commitment to service excellence and strong, well- established governance standards will continue to serve shareholders well. With our resilient balance sheet and strong franchise, we remain focused on delivering sustainable growth and improving long-term financial performance and returns for shareholders.

We will continue to strengthen and grow our balance sheet with further improvements in capital, liquidity and credit quality to drive revenue and profit growth ahead of the market and deliver solid returns for our shareholders. We will also continue our efforts in fostering a high performance culture across the bank and to leverage technology in order to provide an exceptional customer experience to our retail and corporate clients whether they choose to interact with us in person, on the phone or through our various digital channels.

In conclusion, I would like to thank our customers for putting their trust in Al Masraf. I would like to thank our Board Members whose commitment enables our ongoing success and also thank our bank colleagues for their continuous efforts and dedication. We will continue working together in order to exceed expectations throughout the coming years.

Faisal H. Galadari
Chief Executive Officer (CEO)

Standing (from left to right)

Mr. Razi Heyasat
Head - Legal Department & Board Secretary

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

Mr. Zahid Rashid
Chief Risk Officer (CRO)

Mr. Vikesh Mirani
Chief Financial Officer (CFO)

Mr. Mohammed Ashour
Head - Audit

Mr. Charles Doghlass
Chief Business Officer (CBO)

Mr. Ajay Sehgal
Head - Treasury & Investment

Mr. Ali Musmar
Chief Credit Officer (CCO)

Sitting (from left to right)

Mr. Ahmed Alrefaei
Chief Operating Officer (COO)

Mr. Hussein Ohida
AGM – Corporate Support Services

Mr. Faisal H Galadari
Chief Executive Officer (CEO)

Mr. Abdelrazzak Trabelsi
AGM – BPR & Quality

Ms. Suaad Al Shimmari
Head – Human Resources

EXECUTIVE MANAGEMENT

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 ExecutiveManagement.

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.

11/2/2018	Board Meeting No. 1/2018/212
18/3/2018	Board Meeting No. 2/2018/213 and Annual General Assembly Meeting No.42
1/07/2018	Board Meeting No. 3/2018/214
9/9/2018	Board Meeting No. 4/2018/215
22/11/2018	Board Meeting No. 5/2018/216

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:

1. Risk arising from all businesses of the bank and control processes related to it.

2. Ensure comprehensive and well organization of Risk Management functions within the bank.

3. 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 2018
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 M. Amr Alhgag Mr. Abdulqader Obaid Ali	Chairman Member Independent Audit Member	At least quarterly	5
Risk Committee	M. Ahmed Bin Braik Mr. Mustafa Makhlouf Mr. Bashir Matok*	Chairman Member Member	At least 4 times in a year	4
Nomination & Remuneration Committee	Mr. Mohamed Al Suwaidi Mr. Brahim Semid Mr. Amr AlHgag**	Chairman Member Member	At least once yearly	4

**Member of Risk Committee till 17/10/2018*
***Member of Nomination & Remuneration Committee since 22/11/2018 and replaced Mr. Matok*

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 2018

The Board of Directors met 5 times in 2018 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.

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 management 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 adherence 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 association 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

Compliance function at Al Masraf is independent and has unrestricted access to Senior Management, Board as well as all necessary information. Al Masraf has a comprehensive Financial Crimes Compliance Policy in place, which covers Money Laundering, Terrorist Financing, Sanctions & Tax Evasion and Bribery & Corruption. The Bank has a well-defined process for performing ongoing and periodic due diligence on qualifying new and existing customers as per risk-based approach. In line with international standards, Compliance Dept. arranges periodic training on Financial Crimes, which is mandatory for all bank staff to attend. Adequacy of Al Masraf's Compliance function has been independently validated by internal and external examiners, as well as assessors.

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).

Al Masraf's Social Responsibility

Social responsibility has become one of the interests and focuses of financial institutions considering that it as one of the indicators of economic development which is no longer confined to the financial aspect but rather to the contribution of the financial institutions in building society and achieving social solidarity. The concept of social responsibility and community is considered as a prominent priority for the Arab Bank for Investment and Foreign Trade (Al Masraf) whereas Al Masraf has achieved throughout the years remarkable strides and results which was evident in Al Masraf's comprehensiveness of social, voluntary and charitable services whether through initiatives or partnerships or sponsorships. Al Masraf has adopted a policy and methodology to demonstrate its ability to play its role in supporting social responsibilities and that is pursuant to the provisions of the Federal Law No. (2) for the year 2015 regarding Commercial Companies within a framework of corporate governance where Al Masraf participated in several activities (health, education, charity, sports and economy) within 2018 and these contributions were in the following fields:

In Sports

Al Masraf contributed in the sponsorship of Al Jazira Sports Club and of Dubai Hockey Club in the 2018 Hockey Course where Al Masraf held an entertaining sports day during the events of Dubai Fitness Challenge.

In Social Care

Al Masraf participated in the organization of the Charitable events held by Rotary Club of Jumeirah and the support of orphans as well as the support and care of the people of determination with all means (such as through covering their school tuition and expenses and through purchasing electronic wheelchairs to aid them in moving). Al Masraf's participation in this field was through the contribution in the care of autistic patients, organizing workshops that raise awareness regarding breast cancer and the methods to prevent it and organizing a health awareness campaign for the staff to advise regarding leading a healthy lifestyle.

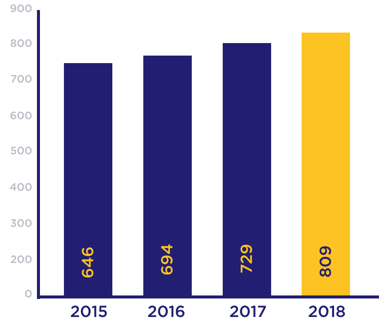
In Economy

Al Masraf contributed in the sponsorship of the 2018 International Auditors Conference and contributed in the Economic Summit and the activities of the Federal Customs Authority and Al Masraf participated in the sponsorship of Regulatory Compliance in a Changing World.

Al Masraf continues to play its role in supporting the social responsibility initiatives that aim to provide assistance and support to all programs that contribute to the continuous development of society in various fields.

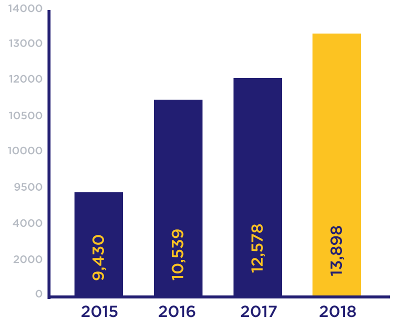
FINANCIAL HIGHLIGHTS

OPERATING INCOME
AED Mn



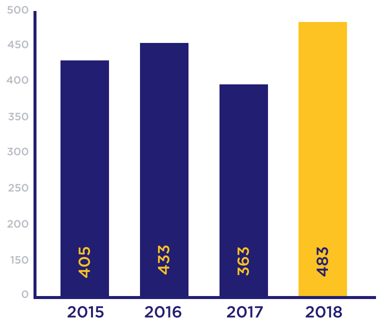
11% INCREASE OVER THE PREVIOUS YEAR

NET LOANS AND ADVANCES
AED Mn



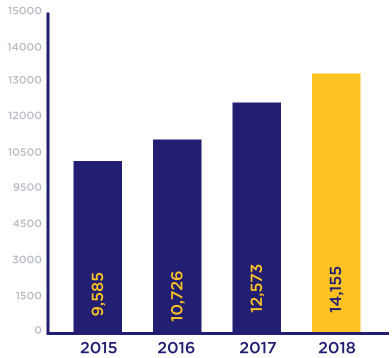
11% INCREASE OVER THE PREVIOUS YEAR

NET PROFIT
AED Mn



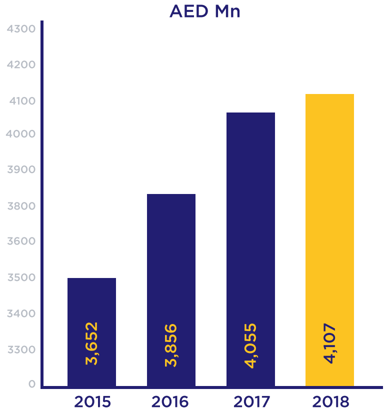
33% INCREASE OVER THE PREVIOUS YEAR

CUSTOMER DEPOSIT
AED Mn



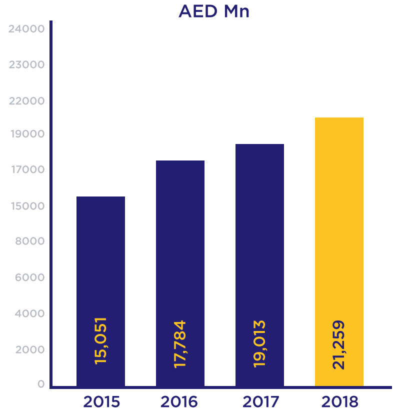
13% INCREASE OVER THE PREVIOUS YEAR

TOTAL EQUITY
AED Mn



1.3% INCREASE OVER THE PREVIOUS YEAR

TOTAL ASSET
AED Mn



12% INCREASE OVER THE PREVIOUS YEAR

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

FINANCIAL STATEMENTS

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Respected Shareholders,

The Board is pleased to present its report along with the audited financial statements for the year ended 31st December 2018. 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 independent auditors.

FINANCIAL HIGHLIGHTS

Despite challenging market conditions, the Bank was able to achieve higher than the market growth in almost all its business segments.

The Bank achieved an increase of 33% in its net profit (before change in other comprehensive income) – from AED 363 million in 2017 to AED 483 million in the current year.

The earnings per share is AED 6.43 thousand per share compared to AED 4.84 thousand per share in the previous year.

The total assets grew by 12% to reach AED 21,259 million (2017: AED 19,013 million) driven by continued strong growth of its lending portfolio and increase in the investment in debt securities by the Bank. The net loans and advances of the Bank increased by 11% from AED 12,578 million to AED 13,898 million and constitute around 65% of the total assets.

FUNDING

To match the growth on lending, the customer deposits increased by 13%. The total customer deposits went up from AED 12,573 million as at 31 December 2017 to AED 14,155 million as at 31 December 2018. The inter-bank deposits and borrowings has increased from AED 2,070 million in the previous year to AED 2,636 million as at 31 December 2018, an increase of 27%.

DEPLOYMENT 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 while achieving the growth of 11% 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 was AED 3,175 million as at 31 December 2018 as against AED 2,208 million as at 31 December 2017.

The cash and bank balances with the Central Bank, which also includes the statutory reserves and certificate of deposits AED 1,731 million as at 31 December 2018 against AED 1,868 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 1,398 million as at 31 December 2018 compared to AED 1,258 million as at 31 December 2017, an increase of 11%.

INVESTMENTS PROPERTIES

The investments properties were revalued during the year by an external valuation firm. This resulted into an impairment charge of AED 11 million (2017: AED 4 million). The revaluation and sale of land & building has resulted into reduction of the net book value of Investment Properties to AED 513 million (including AED 121 million being assets held for sale) compared to AED 621 million in the previous year.

CONTINGENT LIABILITIES

The Bank had a total outstanding in Documentary Credits and Letters of Guarantee of AED 7,445 million as at the end of the year, compared to AED 7,240 million in the previous year.

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To the Shareholders of Arab Bank for Investment and Foreign Trade PJSC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Arab Bank for Investment and Foreign Trade PJSC “Al Masraf”, which comprise the statement of financial position as at 31 December 2018, 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 2018, 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 comprises the Board of Directors’ report, but does not include the financial statements and our auditors’ report thereon.

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, 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.

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.

Those charged with Governance are 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 detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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 2018;
- note 30 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 2018, 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 2018; and
- Note 18 to the financial statements discloses the social contributions made during the year.

Further, as required by the Decretal Federal Law No. (14) of 2018, 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

Emilio Pera
Registered No. 1146
Abu Dhabi, United Arab Emirates
Date: 17/03/2019

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

Statement of Financial Position
as at 31 December

	Note	2018 AED'000	2017 AED'000
Assets			
Cash and balances with the Central Bank of the UAE	7	1,730,980	1,867,514
Due from banks and financial institutions – net	8	3,175,495	2,208,223
Investment at fair value through other comprehensive income (FVOCI) – net	9	1,357,425	1,237,929
Investment at fair value through profit or loss (FVTPL) – net		40,446	20,376
Loans and advances – net	10	13,898,204	12,577,543
Investment properties – net	11	392,584	621,208
Other assets	12	262,469	217,729
Property, plant and equipment	13	281,074	262,598
Non-current assets held-for-sale	14	120,608	-
Total assets		21,259,285	19,013,120
Liabilities			
Customers' deposits	15	14,154,810	12,573,192
Due to banks	16	2,635,582	2,070,334
Other liabilities	17	362,166	314,979
Total liabilities		17,152,558	14,958,505
Equity			
Share capital	18	1,500,000	1,500,000
Statutory reserve	18	593,665	545,413
Special reserve	18	589,075	540,823
General reserve	18	380,000	380,000
Revaluation reserve	18	145,695	144,348
Fair value reserve	18	(30,155)	(2,633)
Retained earnings	18	928,447	946,664
Total equity		4,106,727	4,054,615
Total liabilities and equity		21,259,285	19,013,120

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

Mr. Farhat Omar Ben Gdara
Chairman

Faisal H. Galadari
Chief Executive Officer

The notes on pages 44 to 106 form an integral part of these financial statements.
The independent auditors' report is set out on pages 37 to 39.

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

Statement of comprehensive income

for the year ended 31 December

	Note	2018 AED'000	2017 AED'000
Interest income	19	842,150	653,853
Interest expense	20	(228,900)	(145,045)
Net interest income		613,250	508,808
Income from Islamic financing contracts	21	90,863	65,141
Depositors' share of profit	22	(49,803)	(45,943)
Net income from Islamic financing		41,060	19,198
Net interest and Islamic financing income		654,310	528,006
Fee and commission income	23	120,058	124,775
Fee and commission expense	23	(12,557)	(7,703)
Net fee and commission income		107,501	117,072
Dividend income		5,378	3,006
Net realized (loss) / gain from Investments at FVOCI Net		(144)	28,635
foreign currency exchange gain	24	15,866	14,618
Other operating income	25	25,951	37,863
		47,051	84,122
Operating income		808,862	729,200
General, administration and other operating expenses	26	(265,938)	(233,308)
Profit before net impairment charges on financial assets, investment properties and property, plant and equipment		542,924	495,892
Net impairment charge on financial assets	27	(67,850)	(128,701)
Allowance of impairment on investment properties	11	(11,299)	(4,012)
Net impairment charge/reversal for financial instruments		18,751	-
Profit for the year		482,526	363,179
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation gain / (loss) on property, plant and equipment	13	1,347	(15,653)
Change in fair value of equity investments at FVOCI		5,377	-
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value of bond investments at FVOCI		(33,940)	1,828
Total comprehensive income for the year attributable to shareholders		455,310	349,354
Earnings per share (AED'000)	31	6.43	4.84

The notes on pages 44 to 106 form an integral part of these financial statements.
The independent auditors' report is set out on pages 37 to 39.

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

Statement of changes in equity

for the year ended 31 December

	Share capital	Statutory reserve	Special reserve	General reserve	Revaluation reserve	Fair value reserve	Retained earnings	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance 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	-	-	-	-	**(15,653)**	**1,828**	**363,179**	**349,354**
Transfer to reserves	-	36,318	36,318	-	-	-	(72,636)	-
Dividends paid to equity holders (Note 18)	-	-	-	-	-	-	(150,000)	(150,000)
Zakat (Note 18)	-	-	-	-	-	-	(598)	(598)
Balance at 31 December 2017	**1,500,000**	**545,413**	**540,823**	**380,000**	**144,348**	**(2,633)**	**946,664**	**4,054,615**
Balance at 1 January 2018 as previously reported	1,500,000	545,413	540,823	380,000	144,348	(2,633)	946,664	4,054,615
Impact of adopting IFRS 9 (Note 4)	-	-	-	-	-	1,041	(252,504)	(251,463)
Balance at 1 January 2018 – restated	**1,500,000**	**545,413**	**540,823**	**380,000**	**144,348**	**(1,592)**	**694,160**	**3,803,152**
Profit for the year	-	-	-	-	-	-	482,526	482,526
Fair value adjustment	-	-	-	-	1,347	(28,563)	-	(27,216)
Total comprehensive income	-	-	-	-	**1,347**	**(28,563)**	**482,526**	**455,310**
Transfer to reserves	-	48,252	48,252	-	-	-	(96,504)	-
Dividends paid to equity holders (Note 18)	-	-	-	-	-	-	(150,000)	(150,000)
Zakat (Note 18)	-	-	-	-	-	-	(1,735)	(1,735)
Balance at 31 December 2018	**1,500,000**	**593,665**	**589,075**	**380,000**	**145,695**	**(30,155)**	**928,447**	**4,106,727**

The notes on pages 44 to 106 form an integral part of these financial statements.
The independent auditors' report is set out on pages 37 to 39.

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

Statement of cash flows
as at 31 December

	Note	**2018 AED'000**	2017 AED'000
Cash flows from operating activities			
Profit for the year		**482,526**	363,179
Adjustments for:			
Depreciation	*26*	**23,007**	21,395
Provision for net impairment charge on financial assets	*27*	**67,850**	128,701
Amortization of premium on bonds		**11,043**	10,480
Net impairment charge/reversal for financial instruments		**(18,751)**	-
Realized gain on sale of financial asset at FVOCI		**-**	(28,635)
Gain on sale of investment properties		**-**	(3,175)
Gain on sale of property and equipment		**-**	(3,992)
Allowance for impairment of investment properties	*11*	**11,299**	4,012
Provision for employees' end of service benefits	*17*	**6,339**	10,712
Operating cash flows before payment of employees' end of service benefits and changes in working capital		**583,313**	502,677
Payment of employees' end of service benefits	*17*	**(3,831)**	(18,071)
Changes in:			
Loans and advances		**(1,634,870)**	(2,167,044)
Due from banks		**(183,650)**	-
Other assets		**(44,740)**	(66,155)
Customers' deposits		**1,581,618**	1,847,471
Due to banks		**-**	(367,298)
Other liabilities		**44,679**	90,441
Cash reserve with Central Bank of the UAE	*28*	**20,788**	29,835
Net cash generated from / (used in) operating activities		**363,307**	(148,144)
Cash flows from investing activities			
Purchases of investment properties	*11*	**-**	(1,884)
Purchases of property and equipment	*13*	**(32,838)**	(39,236)
Proceeds from sale of investment properties		**86,053**	55,214
Proceeds from sale of property and equipment		**3,366**	21,776
Proceeds from sale/redemption of investment at FVOCI		**95,732**	310,704
Purchases of investment at FVOCI	*9*	**(256,153)**	(603,533)
Net cash used in investing activities		**(103,840)**	(256,959)
Cash flows from financing activities			
Cash dividend paid	*18*	**(150,000)**	(150,000)
Zakat paid		**(1,735)**	(598)
Net cash used in financing activities		**(151,735)**	(150,598)
Net increase / (decrease) in cash and cash equivalents		**107,732**	(555,701)
Cash and cash equivalents at 1 January		**1,301,947**	1,857,648
Cash and cash equivalents at 31 December	*28*	**1,409,679**	1,301,947

The notes on pages 44 to 106 form an integral part of these financial statements.
The independent auditors' report is set out on pages 37 to 39.

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.

The financial statements of the Bank as at and for the year ended 31 December 2018 is available upon request from the Bank’s registered address P. O. Box 46733, Abu Dhabi, United Arab Emirates.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 were 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;
- Investment at FVOCI 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.

This is the first set of the Bank’s annual financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in notes 3 and 4 to the financial statements.

(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 6 to the financial statements.

3. Significant accounting policies

(a) New and amended standards and interpretations adopted

The Bank has adopted IFRS 9 Financial Instruments issued in July 2014 and IFRS 15 Revenue from Contracts with Customers with a date of initial application of 1 January 2018. The from Contracts with Customers with a date of initial application of 1 January 2018. The requirements of IFRS 9 represents a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 3(a));
- additional disclosures related to IFRS 9 (see Notes 3(a), Note 4 and Note 5); and
- additional disclosures related to IFRS 15 (see Note 3(a) and Note 23).

Except for the changes below, the Bank has consistently applied the accounting policies as set out in notes to all periods presented in these financial statements.

(a-1) IFRS 9 Financial Instruments

(i) Recognition

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method.

Additionally, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

(ii) Classification of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminated the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under IFRS 9 on initial recognition, a financial asset is classified as measured: at amortized cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL).

(ii) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (“ECL”) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 3(c)(vii).

3. Significant accounting policies (continued)

(a) New and amended standards and interpretations adopted (continued)

(a-1) IFRS 9 Financial Instruments (continued)

(iv) Transition

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

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 3(b)(ii)

(a-2) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements.

(b) Financial assets and liabilities

(i) Recognition and initial measurement

Liabilities on the date on which they are originated. All other financial instruments (including regular way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the 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.

3. Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

(ii) Classification of financial assets and financial liabilities

Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortized cost if it meets both the following conditions and is not designated as at FVTPL:

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

The Bank performs an assessment

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

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

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

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

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

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

3. Significant accounting policies *(continued)*

(b) Financial assets and liabilities (continued)

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

Policy applicable from 1 January 2018 *(continued)*

In making the assessment, the Bank considers:

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

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 related solely to the new impairment requirements as described further below. Except for the financial captions listed in the table below, there has been no changes in the carrying amounts of assets and liabilities on application of IFRS 9 as at 1 January 2018.

	Classification under IAS 39 (31 December 2017)					Classification under IFRS 9 (1 January 2018)			
	Loans and receivables	Held to maturity	Available for sale	Held for trading	**Balance**	Amortized cost	FVOCI	FVTPL	**Balance**
	AED'000	AED'000	AED'000	AED'000	**AED'000**	AED'000	AED'000	AED'000	**AED'000**
Financial asset									
Cash and balances with the Central Bank of the UAE	1,867,514	-	-	-	**1,867,514**	1,867,514	-	-	**1,867,514**
Due from banks	2,208,223	-	-	-	**2,208,223**	2,219,909	-	-	**2,219,909**
Loans and advances	12,577,543	-	-	-	**12,577,543**	12,314,394	-	-	**12,314,394**
Investment securities – Debt	-	-	1,177,878	-	**1,177,878**	-	1,157,457	20,376	**1,177,833**
Investment securities – Equity	-	-	80,427	-	**80,427**	-	80,427	-	**80,427**
Other assets	217,729	-	-	-	**217,729**	217,729	-	-	**217,729**
Total financial assets	16,871,009	-	1,258,305	-	**18,129,314**	16,619,546	1,237,884	20,376	**17,877,806**

The Bank classified its financial assets into one of the following categories:

Fair value through profit or loss

(i) Designation at fair value through profit or loss

The Bank designated financial assets and liabilities at fair value through profit or loss when either:

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

3. Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

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

***Policy applicable from 1 January 2018** (continued)*

(i) Held for trading

Trading assets are those assets that the Bank acquired for the purpose of selling in the near term, or held as part of a portfolio that was managed together for short-term profit taking. Fair value through profit or loss assets was not reclassified subsequent to their initial recognition.

Loans and receivables

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

Held-to-maturity

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

Available-for-sale

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

(iii) Reclassifications

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

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments at amortized cost of FVTPL

(iv) De-recognition

Financial asset

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. 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.

3. Significant accounting policies (continued)

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

(iv) *De-recognition (continued)*

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership 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.

Financial liability

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

(v) *Modifications of financial assets and financial liabilities*

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees receivable as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

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3. Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

(vi) Subsequent measurement

The following accounting policies apply to the subsequent measurement of financial assets

Category	Subsequent measurement
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognizedin profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses are recognized in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

(vii) Offsetting

As per IAS 32, 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.

(viii) 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.

(ix) 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.

3. Significant accounting policies (continued)

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

(ix) *Fair value measurement (continued)*

active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize 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.

(x) *Impairment of financial assets*

Policy applicable from 1 January 2018

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

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

- Financial assets that are financing instruments;
- Off-balance sheet instruments issued; and
- Financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

The Expected Credit Loss (ECL) model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

- Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.

3. Significant accounting policies (continued)

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

(x) *Impairment of financial assets (continued)*

- Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.
- Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

Measurement of ECL

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

These parameters are generally derived from externally developed statistical models by Moody's Analytics.

Details of these statistical parameters/inputs are as follows:

- The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon;
- The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date; and
- The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Macroeconomic factors, forward looking information 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 forward looking information 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.

Credit-impaired financial assets

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

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

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

3. Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

(x) Impairment of financial assets (continued)

Experienced credit judgment

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

Default definition followed by the Bank for impairment assessment remains in line with the guidelines of IFRS 9, without any recourse to the assumptions, and consistent with regulatory requirements. The policy on the write-off of financing transactions remains unchanged.

Write-off

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

Expected life

When measuring expected credit loss, the Bank considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

Central Bank of UAE ("CBUAE") provision requirements

As per the CBUAE notice no. CBUAE/BSD/2018/458 dated 30 April 2018, if the specific provision and general/collective provision cumulatively is higher than the impairment allowance computed under IFRS 9, the differential should be transferred to an "Impairment Reserve" as an appropriation from the Retained earnings. This Impairment Reserve should be split to that which relates to difference in specific provision and general/collective provision. The Impairment reserve will not be available for payment of dividend.

Definition of default

The Bank considers a financial asset to be in default when:

- It is established that due to financial or non-financial reasons the borrower is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due 90 days or more on any material credit obligation to the Bank.
- In assessing whether a borrower is in default, the Bank considers indicators that are:

  i. qualitative - e.g. material breaches of covenant;

  ii. quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and

  iii. based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Policy applicable prior to 1 January 2018

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

3. Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

(x) Impairment of financial assets (continued)

***Policy applicable prior to 1 January 2018** (continued)*

Objective evidence that financial assets were impaired could include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or an 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 Bank. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment.

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

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

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

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

Impairment losses on an unquoted equity instruments that were carried at cost because their fair value could not be reliably measured, were measured as the difference between the carrying amount of the financial assets and the present values of estimated future cash flows discounted at the current market rate of return for similar financial assets. Such impairment losses would not be reversed.

(c) 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.

(d) Due from banks

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

3. Significant accounting policies (continued)

(e) Investments measured at fair value through other comprehensive income ("FVOCI")

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

- Interest revenue using the effective interest method
- ECL and reversals, and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

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

(f) Investments at fair value through profit or loss

These are securities that the Bank acquire principally for the purpose of selling in the near term or holding as a part of portfolio that is managed together for short-term profit or position taking. These assets are initially recognised and subsequently measured at fair value in the statement of financial position. All changes in fair values are recognised as part of profit or loss.

(g) Loans and advances

Policy applicable from 1 January 2018

Loans and advances' captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

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

Included in non-trading investments were FVOCI (both equity and debt) which were initially recognised at fair value plus incremental transaction costs directly attributable to the acquisition. Prior to 1 January 2018, non-trading investments included available-for-sale assets (debt and equity) which were initially recognised at fair value plus incremental transaction costs directly attributable to the acquisition.

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

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

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

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

3. Significant accounting policies (continued)

(g) Loans and advances (continued)

(x) Policy applicable from 1 January 2018 (continued)

For unquoted equity investments where fair value could not be reliably measured, these were carried at cost less provision for impairment in value. Upon de-recognition, the gain or loss on sale was recognised in the statement of profit or loss and other comprehensive income for the year.

(h) 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 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

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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.

3. Significant accounting policies (continued)

(g) Islamic financing activities (continued)

(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.

(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 Bank 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.

(i) 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.

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3. Significant accounting policies (continued)

(i) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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.

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:

Category	Year
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.

3. Significant accounting policies (continued)

(j) 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.

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.

(k) Non-current asset held for sale

An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

(l) 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.

(m) 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.

(n) 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.

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3. Significant accounting policies (continued)

(o) 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.

(p) 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.

(q) 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.

Subsequent measurement

At the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15;

(r) Acceptances

Acceptances have been considered within the scope of IFRS 9 Financial Instruments: Recognition and Measurement and are recognised as a financial liability in the statement of financial position with a contractual right of re-imbursement 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.

(s) 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.

(t) 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.

3. Significant accounting policies (continued)

(u) Interest income and expense

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

The calculation of the effective interest rate includes 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 financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018). The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Policy applicable prior 1 January 2018

Interest income and expense were recognised in the statement of profit or loss and other comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation included all amounts paid or received by the Bank that were an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts. Transaction costs included incremental costs that were 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 liabilities at amortised cost on an effective interest rate basis;
- interest on available-for-sale investment securities on an effective interest rate basis;

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3. Significant accounting policies (continued)

(v) 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 Mudaraba 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) 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 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.

(x) 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.

(y) 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.

(z) New standards or amendments for 2018 and forthcoming requirements

New currently effective requirements:

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Bank has not early adopted them in preparing these financial statements.

Of those standards that are not yet effective, IFRS 16 is might impact the Bank's financial statements in the period of initial application.

3. Significant accounting policies (continued)

(z) New standards or amendments for 2018 and forthcoming requirements (continued)

New currently effective requirements:

IFRS 16 Leases

The Bank is required to adopt IFRS 16 Leases from 1 January 2019. The Bank is in the process of assessing the estimated impact that the initial application of IFRS 16 will have on its financial statements.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

4. Transition impact

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

Comparative periods generally have not been restated. A Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

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4. Transition impact *(continued)*

Reconciliation of impairment provision balance from IAS 39 to IFRS 9

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

	AED'000 (Debit)/ credit
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	**(2,633)**
Reversal of ECL for debt securities at FVOCI	1,041
Opening balance under IFRS 9 (1 January 2018)	**(1,592)**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	**946,664**
Recognition of ECL for debt securities at FVOCI	(1,041)
ECL Impairment for corporate loans and advances	(257,159)
ECL Impairment for retail loans and advances	(5,990)
ECL Impairment reversal for due from banks	11,686
Opening balance under IFRS 9 (1 January 2018)	**694,160**

Financial liabilities

There were no changes to the classification and measurement of financial liabilities.

5. 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.

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.

5. Financial risk management (continued)

The Bank Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank Audit Committee.

(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.

Management of credit risk

The Bank's credit risk management framework includes:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assess ment, 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.

- 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 Investment designated at FVOCI).

- 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.

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

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5. Financial risk management (continued)

(a) ***Credit risk*** *(continued)*

Credit quality analysis

Due from banks	Stage 1	Stage 2	Stage 3	2018 AED'000 Total	2017 AED'000 Total
Low-fair risk	2,976,639	203,960	-	**3,180,599**	2,232,223
Higher risk	-	-	-	-	-
Grade 8: Substandard	-	-	-	-	-
Grade 9: Doubtful	-	-	-	-	-
Grade 10: Loss	-	-	-	-	-
Total gross carrying amount	**2,976,639**	**203,960**	-	**3,180,599**	**2,232,223**
Loss allowance (Stage 1 + Stage 2)	(2,114)	(2,990)	-	**(5,104)**	(24,000)
Carrying amount	**2,974,525**	**200,970**	-	**3,175,495**	**2,208,223**

Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	2018 AED'000 Total	2017 AED'000 Total
Low-fair risk	9,997,217	3,693,114	999	**13,691,330**	11,376,387
Higher risk	24,904	432,404	2,024	**459,332**	1,612,313
Grade 8: Substandard	-	-	582,538	**582,538**	83,622
Grade 9: Doubtful	-	-	43,449	**43,449**	253,934
Grade 10: Loss	-	-	141,540	**141,540**	211,456
Total gross carrying amount	**10,022,121**	**4,125,518**	**770,550**	**14,918,189**	**13,537,712**
Loss allowance (Stage 1 + Stage 2)	(44,843)	(252,308)	-	**(297,151)**	(435,355)
Loss allowance (Stage 3)	-	-	(439,133)	**(439,133)**	(383,725)
Unallocated Provision	-	-	(201,883)	**(201,883)**	-
Interest in Suspense	-	-	(49,065)	**(49,065)**	(111,582)
Deferred Profit	(32,753)	-	-	**(32,753)**	(29,507)
Carrying amount	**9,944,525**	**3,873,210**	**80,469**	**13,898,204**	**12,577,543**

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

5. Financial risk management (continued)

(a) Credit risk

Credit quality analysis

	Stage 1	Stage 2	Stage 3	2018 AED'000 Total	2017 AED'000 Total
Debt Securities - FVOCI					
Low-fair risk	1,207,642	37,147	-	**1,244,789**	1,120,758
Higher risk	-	-	-	-	-
Grade 8: Substandard	-	-	-	-	23,595
Grade 9: Doubtful	-	-	-	-	43,947
Grade 10: Loss	-	-	-	-	-
Total gross carrying amount	**1,207,642**	**37,147**	-	**1,244,789**	**1,188,300**
Loss allowance (Stage 1 + Stage 2)	-	-	-	**-**	(30,729)
Carrying amount	**1,207,642**	**37,147**	-	**1,244,789**	**1,157,571**

	Stage 1	Stage 2	Stage 3	2018 AED'000 Total	2017 AED'000 Total
Debt Securities - FVTPL					
Low-fair risk	-	40,446	-	**40,446**	20,376
Higher risk	-	-	-	-	-
Grade 8: Substandard	-	-	-	-	-
Grade 9: Doubtful	-	-	-	-	-
Grade 10: Loss	-	-	-	-	-
				-	
Total gross carrying amount	**-**	**40,446**	-	**40,446**	**20,376**
Loss allowance (Stage 1 + Stage 2)	-	-	-	**-**	-
Carrying amount	**-**	**40,446**	-	**40,446**	**20,376**

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

5. Financial risk management (continued)

Loans and advances to customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Security and Collaterals are bifurcated into following categories:

- Tangible: This includes Cash Margin, Fixed Deposits Under lien Mortgages over immovable assets, pledge of Shares, Commercial Pledge over movable assets.
- Non Tangible: Guarantees and all other collaterals not having any tangible worth/ value.
  Collateralization of exposure is supported by proper documentation, charge (registered where required) etc. to ensure its enforceability/reliability.

The Bank has collateral valuation guidelines which details the principles and frequency of valuation of securities. The Bank monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements. It also monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

When valuations are obtained from Banks' approved evaluators, the lowest value is taken thereafter for the purpose of collateral / LTV computation. A refreshed valuations are obtained for properties with more frequency in cases where there are difficulties and hence reliance on the security is increasingly high. Where the bank accepts fixed assets e.g. property as collateral, these are adequately insured with the bank as loss payee, where-ever applicable. If corporate guarantees are accepted their tangible net worth are re-evaluated annually along with the annual review of facilities, where-ever applicable. All securities are held under the custody of an independent credit administration function.

At 31 December 2018, the net carrying amount of credit-impaired loans and advances to customers amounted to AED 279,329 (2017: 53,706) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AED 911,406 (2017: AED 166,472). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

For retail portfolio historical payment behavior of the exposure is evaluated to determine significant increase in credit risk.
In addition to the quantitative test based on movement of PD, the Bank also applies experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results.

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

5. **Financial risk management** (continued)

(a) ***Credit risk*** (continued)

Credit risk grades

The Bank allocates each corporate exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each Borrower is assigned a credit risk grade on initial recognition based on available information about the borrower's financial information, securities provided to banks and other relevant qualitative information. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

The monitoring typically involves use of the following information.

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes • Data from credit reference agencies, press articles, changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data on customer behaviour – e.g. utilisation of credit card facilities • Affordability metrics • External data from credit reference agencies, including industry-standard credit scores	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilisation of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

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

5. Financial risk management (continued)

(a) *Credit risk* (continued)

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between corporate and retail

.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently.

When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

Definition of default

The Bank considers a financial asset to be in default when:

• the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);

• the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or

• it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

• qualitative: e.g. breaches of covenant;

• quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and

• based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes (see 5(e)).

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring. Same information is used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities, and the International Monetary Fund, and selected private-sector and academic forecasters.

Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Bank's senior management.

5. Financial risk management (continued)

(a) *Credit risk* (continued)

Incorporation of forward-looking information (continued)

The bank has applied the following Macro Economic Variables/Shocks for UAE in conditional IFRS 9 analysis with forecast scenarios:

- GDP
- Equity (ADH Equity Index)
- Oil Price

Unemployment data is not of much indicator in UAE and hence not considered. UAE Real Estate variable is not yet included since the points pertaining to data series is not yet adequate. Forecasts for 5 years have been used for this purpose.

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 derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the Bank accounting policy.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

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

5. Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. . For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are Banked on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

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

5. Financial risk management (continued)

(a) Credit risk (continued)

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under IAS 39.

	Stage 1	Stage 2	Stage 3	2018 Total	2017 Total
Due from banks	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Beginning of the period	24,000	-	-	24,000	20,000
Impact due to IFRS 9 adoption	(11,686)	-	-	(11,686)	-
	12,314	**-**	-	**12,314**	20,000
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Impact of change in provision	**(7,210)**	**-**	-	**(7,210)**	4,000
	5,104	**-**	-	**5,104**	24,000

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

5. Financial risk management (continued)

(a) *Credit risk* (continued)

Loss allowance (continued)

Loans and advances to customers at amortized cost	Stage 1	Stage 2	Stage 3	2018 Total	2017 Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Beginning of the period	59,220	376,135	383,725	819,080	727,927
Impact due to IFRS 9 adoption	9,065	31,550	222,534	263,149	-
	68,285	407,685	606,259	1,082,229	727,927
Transfers:					
Transfer from Stage 1 to Stage 2	-	15,719	-	15,719	-
Transfer from Stage 1 to Stage 3	-	-	37,672	37,672	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	67,464	67,464	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Impact of change in provision	-	-	93,491	93,491	194,592
Impact of new loans	10,730	13,842	-	24,572	-
Recovery	-	-	(38,668)	(38,668)	(29,955)
Write Back	-	-	(72,065)	(72,065)	-
Write-offs	-	(148,652)	(123,595)	(272,247)	(73,484)
Transfer among stage itself	-	131,424	(131,424)	-	-
	79,015	420,018	439,134	938,167	819,080

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

5. Financial risk management (continued)

(a) Credit risk (continued)

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

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

Gross Maximum Exposure	**2018 AED'000**	2017 AED'000
Balances with Central Bank of the UAE	**1,667,361**	1,803,120
Investments at fair value through other comprehensive income	**1,405,949**	1,289,035
Due from banks and financial institutions	**3,180,599**	2,232,223
Loans and advances	**14,918,189**	13,537,712
Other assets	**1,388,868**	1,489,035
Contingent liabilities	**7,444,512**	7,240,153
Commitments	**4,655,876**	5,638,055
Total credit risk exposure	**34,661,354**	33,229,333

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

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 months, in order to establish satisfactory track record of performance under the restructuring agreement.

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 months' 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.

Loans with renegotiated terms	**2018 AED'000**	2017 AED'000
Gross carrying amount	**2,424,518**	1,564,496
Impaired loans	495,411	223,374
Allowance for impairment	**(252,430)**	(100,721)
Net loans with renegotiated terms	**2,667,449**	1,687,149

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

5. Financial risk management (continued)

(a) *Credit risk (continued)*

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.

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 2018, the Bank held credit risk mitigants with an estimated value of AED 9,567,866 thousand (2017: AED 7,159,832 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 2018 or 31 December 2017.

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

LTV ratio	2018 AED'000	2017 AED'000
Less than 50%	33,273	47,727
51 – 70%	190,310	84,987
71 – 90%	85,391	63,830
91 – 100%	-	-
More than 100%	-	-
Total	308,974	196,544

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 Bank's policy.

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

5. Financial risk management (continued)

(a) Credit risk (continued)

Collateral (continued)

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

	2018 AED'000	2017 AED'000
Against individually impaired		
Property	324,887	104,661
Equities	-	-
Others (FD)	1,415	5
	326,302	104,666
Against past due but not impaired		
Property	3,409,407	1,664,077
Equities	270,749	27,727
Others	131,278	120,385
	3,811,434	1,812,189
Against neither past due nor impaired		
Property	4,537,407	4,531,586
Equities	312,882	214,528
Others	579,841	496,863
	5,430,130	5,242,977
Total value of collaterals and other credit enhancements	9,567,866	7,159,832

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 Investment at FVOCI and FVTPL at the reporting date is shown below:

Loans and advances *Concentration by industry*	2018 AED'000	2017 AED'000
Real estate	2,863,743	2,655,194
Trading	2,708,850	2,757,985
Services	1,604,373	1,376,015
Construction	1,580,136	1,438,601
Personal loans for business (HNI)	1,494,270	1,711,224
Financial institutions	1,470,209	1,301,562
Individuals	1,331,410	584,669
Manufacturing	870,757	929,774
Transport	853,390	634,566
Mining and quarrying	17,191	14,796
Others	123,860	133,326
Gross loans and Islamic financing	14,918,189	13,537,712
Less: deferred profit	(32,753)	(29,507)
Less: interest suspended	(49,065)	(111,582)
Less: allowance for impairment	(938,167)	(819,080)
Carrying amount	13,898,204	12,577,543

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

5. Financial risk management (continued)

*(a) **Credit risk** (continued)*

Concentrations of credit risk

	Due from banks and financial institutions		Investments at FVOCI		Investments at FVTPL	
	2018	2017	**2018**	2017	**2018**	2017
Concentration by sector:	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Public sector	-	-	737,035	775,647	-	-
Private sector	-	-	84,395	35,222	-	-
Financial institutions	3,180,599	2,232,223	423,359	457,789	40,446	20,376
	3,180,599	**2,232,223**	**1,244,789**	**1,268,658**	**40,446**	**20,376**
Less: allowance for impairment	**(5,104)**	**(24,000)**	**-**	**(30,729)**	**-**	**-**
Carrying amount	**3,175,495**	**2,208,223**	**1,244,789**	**1,237,929**	**40,446**	**20,376**

	Due from banks and financial institutions		Loans and advances		Investments at FVOCI		Investments at FVTPL	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Concentration by location:	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
UAE	**552,282**	661,459	13,856,186	12,533,450	897,744	979,264	40,446	20,376
Europe	**1,052,935**	764,521	-	-	-	287	-	-
GCC	**753,796**	338,903	-	-	328,628	230,595	-	-
Arab World	**147,897**	19,815	-	-	-	8,921	-	-
North America	**44,303**	16,163	-	-	-	-	-	-
Asia	**624,282**	407,274	42,018	44,093	-	-	-	-
Others	**-**	88	-	-	18,417	18,862	-	-
	3,175,495	**2,208,223**	**13,898,204**	**12,577,543**	**1,244,789**	**1,237,929**	**40,446**	**20,376**

Concentration by location for loans and advances, due from banks and Investment at FVOCI and at FVPTL 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 2018, twelve customers, (group wise exposures), comprised approximately 24.43% of the total balance of loans and advances (2017: 23.9%).

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.

Commitments and contingencies related credit risk

Credit risk arising from commitments and contingencies is disclosed in note 29 to the financial statements.

5. Financial risk management (continued)

(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.

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 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 in compliance with UAE Central Bank liquidity regulation on Eligible Liquid Assets Ratio ("ELAR") at all times.

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.

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

5. Financial risk management (continued)

(b) Liquidity risk (continued)

The maturity profile of financial assets and liabilities at 31 December 2018 was as follows:

	Carrying amount	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Unspecified maturity
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the Central Bank of the UAE	**1,730,980**	1,130,980	600,000	-	-	-	-
Due from banks and financial institutions	**3,175,495**	2,106,258	-	183,650	-	-	885,587
Investments at FVOCI	**1,357,425**	55,007	158,565	536,891	421,661	72,665	112,636
Investments at FVTPL	**40,446**	40,446	-	-	-	-	-
Loans and advances	**13,898,204**	2,862,441	3,329,803	2,943,458	2,377,953	2,384,549	-
Other assets	**262,469**	55,604	18	-	-	-	206,847
Total assets	**20,465,019**	**6,250,736**	**4,088,386**	**3,663,999**	**2,799,614**	**2,457,214**	**1,205,070**
Liabilities							
Customers' deposits	**14,154,810**	5,542,207	4,519,148	1,780,880	-	-	2,312,575
Due to banks and financial institutions	**2,635,582**	2,079,320	-	-	-	-	556,262
Other liabilities	**362,166**	55,604	18	-	-	-	306,544
Total liabilities	**17,152,558**	**7,677,131**	**4,519,166**	**1,780,880**	**-**	**-**	**3,175,381**
On statement of financial position gap	**3,312,461**	**(1,426,395)**	**(430,780)**	**1,883,119**	**2,799,614**	**2,457,214**	**(1,970,311)**

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

	Carrying amount	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Unspecified maturity
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
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
Investments at FVOCI	1,237,929	-	96,793	529,277	469,661	61,865	80,360
Investments at FVTPL	20,376	-	-	-	-	-	20,376
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	1,915,802	-	-	-	-	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
On statement of financial position gap	3,170,809	(1,694,701)	(957,526)	897,639	3,624,492	474,891	826,014

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

5. Financial risk management (continued)

(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.

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.

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 2018 is as follows:

		Re-pricing in					
	Total	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Non-interest Bearing
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the Central Bank of the UAE	**1,730,980**	100,000	600,000	-	-	-	1,030,980
Due from banks and financial institutions	**3,175,495**	3,175,495	-	-	-	-	-
Investments at FVOCI	**1,357,425**	14,560	158,564	536,891	421,661	72,665	153,084
Investments at FVTPL	**40,446**	40,446	-	-	-	-	-
Loans and advances	**13,898,204**	12,328,122	625,614	310,053	167,901	267,097	199,417
Other assets	**262,469**	-	-	-	-	-	262,469
Total assets	**20,465,019**	**15,658,623**	**1,384,178**	**846,944**	**589,562**	**339,762**	**1,645,950**
Liabilities							
Customers' deposits	**14,154,810**	5,896,557	4,135,936	435,635	-	-	3,686,682
Due to banks and financial institutions	**2,635,582**	2,635,582	-	-	-	-	-
Other liabilities	**362,166**	-	-	-	-	-	362,166
Total liabilities	**17,152,558**	**8,532,139**	**4,135,936**	**435,635**	-	-	**4,048,848**
On statement of financial position gap	**3,312,461**	**7,126,484**	**(2,751,758)**	**411,309**	**589,562**	**339,762**	**(2,402,898)**

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5. 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 2017 is as follows:

		Re-pricing in					
	Total	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Non-interest Bearing
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
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	-	-	-	-	-
Investments at FVOCI	1,237,929	-	96,793	529,277	469,634	61,865	80,360
Investments at FVTPL	20,376	-	-	-	-	-	20,376
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	14,968,505	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)

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 *(2017: 75 basis points)* and estimates the following impact on the profit for the year and equity at that date:

	2018 Profit for the year AED'000	2017 Profit for the year AED'000	**2018 Equity AED'000**	2017 Equity AED'000
Fluctuation in yield	**4,153**	4,387	**3,080**	3,041

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 19,095 million interest bearing assets at year end *(2017: AED 16,529 million)* and AED 13,102 million interest bearing liabilities at year end *(2017: AED 10,679 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.

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5. Financial risk management (continued)

(c) *Market risk (continued)*

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 2018, the Bank had the following significant net exposures denominated in foreign currencies:

	Net spot position AED'000	Forward position AED'000	**Net exposure 2018 AED'000**	Net exposure 2017 AED'000
Currency				
US Dollar	806,469	-	**806,469**	501,406
GBP	47	-	**47**	(388)
Euro	5,900	-	**5,900**	3,021

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.

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.

(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.

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

5. Financial risk management (continued)

(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 2018, the Bank's strategy, which was unchanged from 2017, 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 quarterly (Basel III) basis.

The Central Bank of the UAE issued its circular No. 52/2017 dated January 17, 2018 informing all the Banks operating in the U.A.E. to implement the Standardized approach of Basel III 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 III 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:

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

5. Financial risk management (continued)

(e) *Capital management (continued)*

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. regulation vide notice 28/ 2018 dated 17 January 2018, which are effective from 31 December 2017.

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 2018 is 12.375% inclusive of capital conservation buffer. This will increase to maximum of 15%inclusive of capital conservation buffer by year 2019. 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 1.875% in year 2018, this will increase to 2.5% by year 2019.

The Bank's regulatory capital positions as 31 December 2018 & 2017 under Basel III is as follows:

	2018 AED'000	2017 AED'000
Capital Base		
Tier 1 capital	3,961,032	3,912,900
Tier 1 capital	234,821	211,236
Total capital base	4,195,853	4,124,136
Risk weighted assets:		
Credit risk	18,785,683	17,109,484
Market risk	84,685	20,833
Operational risk	1,395,160	1,293,406
Total risk weighted assets	20,265,528	18,423,723
Capital adequacy ratio	20.7%	22.4%
Tier 1 ratio	19.5%	21.2%
Tier 2 ratio	1.2%	1.2%

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6. 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)(x).

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 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.

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

(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 7).

(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 at fair value through other comprehensive income, the Bank has determined that it meets the description as set out in accounting policy 3(b)(ix).

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

6. Use of estimates and judgements (continued)

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

(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(b)(ix).

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 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 14) 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:

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6. Use of estimates and judgements (continued)

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

(iii) Valuation of financial instruments (continued)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2018				
Investments at FVOCI (Note 9)	1,342,506	-	14,919	1,357,425
Investments at FVTPL	-	-	40,446	40,446
	1,342,506	**-**	**55,365**	**1,397,871**
At 31 December 2017				
Investments at FVOCI (Note 9)	1,222,919	-	15,010	1,237,929
Investments at FVTPL	-	-	20,376	20,376
	1,222,919	**-**	**35,386**	**1,258,305**

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

	2018 AED'000	2017 AED'000
At 1 January	**35,386**	45,209
Additions during the year	**-**	-
Redemption / sale during the year	**-**	(9,859)
Allowance for impairment	**-**	-
Translation gain	**-**	-
Change in fair value	**(92)**	36
Reversal of impairment	**20,071**	-
At 31 December	**55,365**	35,386

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 Investment at FVOCI 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.

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

6. Use of estimates and judgements (continued)

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

Accounting classifications and fair values (continued)

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.

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

	2018 AED'000	2017 AED'000
Cash in hand	63,619	64,394
Balances with the Central Bank of the UAE	984,693	1,099,664
Cash reserve with Central Bank of the UAE	682,668	703,456
	1,730,980	1,867,514

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

8. Due from banks and financial institution - net

	2018 AED'000	2017 AED'000
Current, call and notice deposits	885,587	501,679
Fixed deposits	2,111,362	1,730,544
Loan Syndication	183,650	-
Gross balance	3,180,599	2,232,223
Allowance for impairment	(5,104)	(24,000)
Net balance	3,175,495	2,208,223
By location:		
Within the UAE	552,282	680,098
Outside the UAE	2,623,213	1,528,125
	3,175,495	2,208,223

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

9. Investment at fair value through other comprehensive income (FVOCI) - net

	2018 AED'000	2017 AED'000
Investment in quoted UAE securities (bonds)	897,745	920,429
Investment in quoted GCC (excl. UAE) securities (Bonds)	347,044	237,142
Total bonds at FVOCI	1,244,789	1,157,571
Investment in quoted UAE securities (equity)	93,959	58,948
Investments in unquoted overseas securities (equity investments)	14,722	14,722
Investment in quoted GCC (excl. UAE) securities (Equity)	3,759	6,401
Investment in overseas funds	196	287
Total equities at FVOCI	112,636	80,358
Total investments at FVOCI	1,357,425	1,237,929

The above investment at FVOCI 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 investment designated at FVOCI during the year were as follows:

	2018 AED'000	2017 AED'000
Fair value at 1 January	1,237,929	925,117
Purchase of Investment at FVOCI	256,153	603,533
Sale of Investment at FVOCI	(95,732)	(282,069)
Change in fair value	(28,563)	1,828
Amortisation of bonds	(11,043)	(10,480)
Allowance for impairment	(1,227)	-
Translation gain	(92)	-
Fair value at 31 December	1,357,425	1,237,929

The maximum exposure to credit risk at the reporting date is the carrying value of the securities classified as *Investments at FVOCI.*

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

10. Loans and advances - net

	2018 AED'000	2017 AED'000
Loans and advances	13,044,650	11,801,558
Islamic financing	1,873,539	1,736,154
Gross loans and Islamic financing	14,918,189	13,537,712
Deferred profit	(32,753)	(29,507)
Allowance for impairment	(938,167)	(819,080)
Interest suspended	(49,065)	(111,582)
Net loans and advances	13,898,204	12,577,543

Islamic finance breakdown

	2018 AED'000	2017 AED'000
By type :		
Ijarah	861,644	965,305
Murabaha	1,011,895	770,849
Gross Islamic financing	1,873,539	1,736,154
Deferred profit	(32,753)	(29,507)
Profit in suspense	(942)	(332)
Allowance for impairment	(19,050)	-
Net Islamic financing	1,820,794	1,706,315

The maturities of minimum Ijara payments

	2018 AED'000	2017 AED'000
Less than one year	22,853	169,315
Between one year and five years	86,303	629,564
More than five years	752,488	166,426
Gross Ijara financing	861,644	965,305

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

10. Loans and advances - net (continued)

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

	2018 AED'000	2017 AED'000
Corporate segment	**13,877,932**	12,740,387
Consumer segment	**1,040,257**	797,325
Gross loans and Islamic financing	**14,918,189**	13,537,712

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

	Individual impairment AED'000	**Collective impairment AED'000**	**Total AED'000**
2018			
At 1 January	383,725	435,355	**819,080**
Adjustment of initial adoption IFRS 9	222,534	40,615	**263,149**
Charge for the year	198,626	8,827	**207,453**
Recoveries	(38,668)	-	**(38,668)**
Write Back to Income Statement	(72,065)	-	**(72,065)**
Net change during the period	**310,427**	**49,442**	**359,869**
Net amounts written off	(123,595)	(148,652)	**(272,247)**
Transfer during the period	(131,424)	131,424	**-**
Transfer from IIS to GP	-	24,255	**24,255**
Transfer from GP Banks to GP Corp	-	7,210	**7,210**
	439,133	**499,034**	**938,167**

	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	150,997	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

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

11. Investment properties - net

	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 2017	168,523	319,926	488,449	669,551	19,429	688,980	1,177,429
Additions	-	-	-	-	1,884	1,884	1,884
Disposals	-	-	-	(81,450)	-	(81,450)	(81,450)
Transfers to property and equipment	-	-	-	-	(6,868)	(6,868)	(6,868)
At 31 December 2017	168,523	319,926	488,499	588,101	14,445	602,546	1,090,995
Additions	-	-	-	-	-	-	-
Sale of investment property	-	-	-	(152,392)	(600)	(152,992)	(152,992)
Transferred to property and equipment	-	-	-	-	-	-	-
Transferred to non-current assets held-for-sale	-	-	-	(120,608)	-	(120,608)	(120,608)
At 31 December 2018	**168,523**	**319,926**	**488,449**	**315,101**	**13,845**	**328,946**	**817,395**
Accumulated depreciation							
At 1 January 2017	-	71,763	71,763	-	-	-	71,763
Charges for the year	-	10,664	10,664	-	-	-	10,664
Disposals	-	-	-	-	-	-	-
At 31 December 2017	-	82,427	82,427	-	-	-	82,427
Charges for the year	-	10,664	10,664	-	-	-	10,664
At 31 December 2018	-	**93,091**	**93,091**	-	-	-	**93,091**
Net carrying amount							
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
At 31 December 2018	168,523	226,835	395,358	315,101	13,845	328,946	724,304
***Less*: allowance for impairment**	(58,844)	(19,314)	(78,158)	(239,717)	(13,845)	(253,562)	(331,720)
	109,679	**207,521**	**317,200**	**75,384**	**-**	**75,384**	**392,584**

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11. Investment properties - net (continued)

Towards the end of 2018, the Bank carried out an evaluation exercise of the investment properties and investment properties under development through qualified, independent external valuators, the valuation methodologies used by the external valuators 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 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:

	2018 AED'000	2017 AED'000
Rental income	36,428	42,429
Direct operating expenses	(10,575)	(11,733)
	25,853	30,696

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

	2018 AED'000	2017 AED'000
At 1 January	387,360	419,627
Charge for the year	15,901	8,639
Recoveries during the year	(4,602)	(4,627)
Net charge for the year	11,299	4,012
Disposal for the year	(66,939)	(36,279)
At 31 December	331,720	387,360

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12. Other assets

	2018 AED'000	2017 AED'000
Acceptances	55,622	25,273
Interest receivable	157,674	143,166
Sundry debtors and other assets	31,301	31,418
Property acquired in settlement of debt	17,872	17,872
	262,469	217,729

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 17) in the statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

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 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
At 31 January 2018	122,122	262,435	384,557	34,971	103,200	522,728
Additions	-	-	-	31,619	1,219	32,838
Transfers	-	-	-	(24,340)	24,340	-
Sale of property and equipment	-	-	-	-	(11,191)	(11,191)
Elimination of accumulated depreciation on Revaluation	-	(8,548)	(8,548)	-	-	(8,548)
Gain on revaluation	2,788	7,107	9,895	-	-	9,895
At 31 December 2018	**124,910**	**260,994**	**385,904**	**42,250**	**117,568**	**545,722**

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13. Property, plant and equipment (continued)

	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
Accumulated depreciation						
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
At 1 January 2018	-	179,556	179,556	-	80,574	260,130
Charge for the year	-	347	347	-	11,996	12,343
Disposals	-	-	-	-	(7,825)	(7,825)
At 31 December 2018	**-**	**179,903**	**179,903**	**-**	**84,745**	**264,648**
Net carrying amount						
At 1 December 2017	**122,122**	**82,879**	**205,001**	**34,971**	**22,626**	**262,598**
At 31 December 2018	**124,910**	**81,091**	**206,001**	**42,250**	**32,823**	**281,074**

The freehold land and buildings were valued towards year end by qualified, independent external valuators. The valuation methodologies used by the external valuators 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 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 valuators 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 2018, as provided by the valuators was AED 206 million *(2017: AED 205 million)*, resulting into an increase in the revaluation reserve by AED 9.9 million *(2017: AED 15.7 million)*. The table below represents the movement in the revaluation reserve of the freehold land and building:

	2018 AED'000	2017 AED'000
Revaluation reserve – freehold land and buildings		
At 1 January	**144,348**	160,001
Fair value adjustment	**9,895**	(6,460)
Elimination of revaluation gain on property and Equipment	**(8,548)**	(9,193)
At 31 December	**145,695**	144,348

At 31 December 2018, total cost of AED 178 million *(2017: AED 210 million)* of fully depreciated assets was included in freehold land and buildings.

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14. Non-current assets held-for-sale

During the year, the bank has entered into a commercial agreement to sell a part of its investment property portfolio. The deal is expected to be finalized in 2019. These assets are non-cash generating units and therefore have no impact on the statement of profit or loss and other comprehensive income.

	2018 AED'000	2017 AED'000
Gross investments	120,608	-
	120,608	-

15. Customers' deposits

	2018 AED'000	2017 AED'000
by type:		
Notice and time deposits	8,623,328	6,711,398
Current accounts	3,520,435	3,792,361
Savings accounts	148,440	190,783
	12,292,203	10,694,542
***Islamic deposits** by type:*		
Current account deposits	175,076	246,450
Mudaraba term and savings deposits	3,626	3,423
Wakala deposits	1,683,905	1,628,777
	1,862,607	1,878,650
Total deposits	14,154,810	12,573,192
by sector:		
Government sector	3,542,935	2,726,304
Private sector	7,505,462	7,113,283
Individuals	3,106,413	2,733,605
	14,154,810	12,573,192

16. Due to banks

	2018 AED'000	2017 AED'000
Current, call and notice deposits	558,263	154,529
Fixed deposits	2,077,319	1,915,805
	2,635,582	2,070,334
by location:		
Within the UAE	576,095	807,425
Outside the UAE	2,059,487	1,262,909
	2,635,582	2,070,334

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17. Other liabilities

	2018 AED'000	2017 AED'000
Acceptances	55,622	25,237
Interest payable	116,715	100,309
Provision for employees' end of service benefits	22,885	20,377
Others	166,944	169,020
	362,166	314,979

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

	2018 AED'000	2017 AED'000
At 1 January	20,377	27,736
Provided during the year	6,339	10,712
Paid during the year	(3,831)	(18,071)
	22,885	20,377

18. 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 *(2017: 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 48.3 million (2017: AED 36.3 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 48.3 million (2017: AED 36.3 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.

Revaluation reserve

The revaluation reserve includes gains on revaluation of freehold land and buildings, amounting to AED 146 million (2017: AED 144 million). During the year 2018 a revaluation gain of AED 1.3 million (2017: gain of AED 15.7 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 Investment at fair value through other comprehensive income (FVOCI), until the investments are derecognised or impaired.

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18. Capital and reserves (continued)

Fair value reserve *(continued)*

	2018 AED'000	2017 AED'000
Fair value reserve – Investments designated at FVOCI		
At 1 January	(2,633)	(4,461)
Net gain recognised	(28,563)	1,828
Impact of Adopting IFRS 9, net of tax	1,041	-
At 31 December	(30,155)	(2,633)

Dividends

At the Annual General Meeting (AGM) held on 18th March, 2018, the Shareholders of the Bank approved distributing dividends of AED 2,000 per ordinary share *(31 December 2017: AED 2,000 per ordinary share)* which were paid on 16th April 2018.

Zakat

The Bank has paid AED 1,735,000 as Zakat during the year *(2017: AED 598,000)*.

19. Interest income

	2018 AED'000	2017 AED'000
Loans and advances to customers	747,662	582,420
Investment securities	47,832	35,013
Due from banks	46,656	36,420
	842,150	653,853

20. Interest expense

	2018 AED'000	2017 AED'000
Customers' deposits	207,199	132,827
Due to banks	21,701	12,218
	228,900	145,045

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21. Income from Islamic financing contracts

	2018 AED'000	2017 AED'000
Murabaha	45,685	30,922
Ijarah	45,178	34,219
	90,863	65,141

22. Depositors' share of profit

	2018 AED'000	2017 AED'000
Mudaraba deposits and saving accounts	16	184
Wakala	49,787	45,759
	49,803	45,943

23. Net fee and commission income

	2018 AED'000	2017 AED'000
Fee and commission income		
Letters of credit	36,862	46,782
Letters of guarantee	28,295	23,986
Retail and corporate lending fees	24,744	20,632
Transfers and other fees	2,930	2,387
Murabaha finance	6,312	2,850
Others	20,915	28,138
Total fee and commission income	120,058	124,775
Fee and commission expense		
Brokerage commission	(970)	(1,358)
Handling charges	(360)	(672)
Other commission	(11,227)	(5,673)
Total fee and commission expense	(12,557)	(7,703)
Net fee and commission income	107,501	117,072

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

(23) Fee and commission income (continued)

	Trade Finance		Other		Total	
	2018	2017	**2018**	2017	**2018**	2017
Disaggregation of fee and commission income	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Fee and commission income	**65,157**	70,768	**54,901**	54,007	**120,058**	124,775
Fee and commission expense	**-**	-	**(12,557)**	(7,703)	**(12,557)**	(7,703)
Net fee and commission income	**65,157**	70,768	**42,344**	46,304	**107,501**	117,072

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Investment banking service	The Bank's investment banking segment provides various finance-related services, including loan administration and agency services, administration of a loan syndication, execution of client transactions with exchanges and securities underwriting. Fees for ongoing services are charged annually at the end of the calendar year to the customer's account. However, if a customer terminates the contract before 31 December, then on termination it is charged the fee for the services performed to date. Transaction-based fees for administration of a loan syndication, execution of transactions, and securities underwriting are charged when the transaction takes place.	Revenue from administrative agency services is recognised over time as the services are provided. The amounts to be collected from customers on 31 December are recognised as trade receivables. Revenue related to transactions is recognised at the point in time when the transaction takes place.

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24. Net foreign currency exchange gain

	2018 AED'000	2017 AED'000
Trading and retranslation gain	13,532	10,645
Dealings with customers	2,334	3,973
	15,866	14,618

25. Other operating income

	2018 AED'000	2017 AED'000
Rental income, net	25,853	30,696
Others	98	7,167
	25,951	37,863

26. General, administration and other operating expenses

	2018 AED'000	2017 AED'000
Staff costs ***(i)***	173,877	156,460
Depreciation ***(ii)***	23,007	21,395
BOD expenses	12,638	14,055
Others	56,416	41,398
	265,938	233,308

(i) The number of employees as at 31 December 2018 was 391 employees *(2017: 354 employees)*.

Staff costs are divided as follows:

	2018 AED'000	2017 AED'000
Salaries and wages	88,995	75,574
End of service benefits	6,339	10,712
Other benefits	78,543	70,174
	173,877	156,460

(ii) Depreciation comprises of depreciation charge for the year on property and equipment amounting to AED 12.3 million *(2017: AED 10.7 million)* and investment properties amounting to AED 10.6 million *(2017: AED 10.6 million)* net of depreciation amount related to valuation.

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27. Net impairment charge on financial assets

	2018 AED'000	2017 AED'000
Provision for impairment on:		
Collective impairment charge during the year	(8,827)	(43,595)
Collective impairment for due from banks	-	(4,000)
Specific provision during the year	(198,626)	(150,997)
Recovery of loan loss provisions	38,668	29,955
Recovery of loans previously written - off	28,870	39,936
Write Back	72,065	-
	(67,850)	(128,701)

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.

28. 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:

	2018 AED'000	2017 AED'000
Cash and balances with the Central Bank of the UAE	1,730,980	1,867,514
Due from banks	3,180,599	2,208,223
Due to banks	(2,635,582)	(2,070,334)
	2,275,997	2,005,403
Less: cash reserve with Central Bank of the UAE	(682,668)	(703,456)
Less: due from banks with original maturity of more than 3 months	(183,650)	-
Cash and cash equivalents	1,409,679	1,301,947

29. Commitments and contingencies

	2018 AED'000	2017 AED'000
Letters of credit	2,876,345	2,941,045
Letters of guarantee	4,568,167	4,299,108
	7,444,512	7,240,153
Commitments at the reporting date are shown below:		
Un-drawn commitments to extend credit	4,634,190	5,523,472
Commitment for future capital expenditure	21,686	8,115
Commitments to extend financial guarantees	106,198	106,198
	4,762,074	5,637,785
Total commitments and contingencies	12,206,586	12,877,938

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

29. Commitments and contingencies (continued)

Irrevocable undrawn facilities commitments as at 31 December 2018 amounted to AED 498 million *(2017: AED 517 million)*

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.

30. 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 (%)	
	2018 AED'000	2017 AED'000
Emirates Investment Authority	**42.28**	42.28
Libyan Foreign Bank	**42.28**	42.28
Banque Exterieure d'Algerie	**15.44**	15.44

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.

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

30. Related parties (continued)

	Key management personnel		Others	
	31 December 2018 AED'000	31 December 2017 AED'000	**31 December 2018 AED'000**	31 December 2017 AED'000
Balances				
Loans and advances	**33,245**	26,191	**4,515**	4,630
Deposits	**22,355**	24,884	**3,818,837**	2,820,273
Commitments and contingencies	**-**	-	**2,152,075**	2,881,989
Transactions				
Board of Directors'	**10,640**	12,000	**-**	-
Salaries and benefits	**17,781**	18,880	**-**	-
Post-employment benefits	**1,345**	1,301	**-**	-
Interest income	**1,422**	483	**-**	2
Interest expense	**312**	282	**49,825**	23,597
Fee and commission	**-**	-	**2,797**	7,336
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 3% and 5% *(2017: 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.

31. Earnings per share

Basic earnings per share

The calculation of basic profit per share at 31 December 2018 was based on the profit attributable to ordinary Shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	2018	2017
Profit for the year (AED'000)	**482,526**	363,179
Weighted average number of ordinary shares	**75,000**	75,000
Earnings per share (AED'000)	**6.43**	4.84

There were no potentially dilutive securities as at 31 December 2018 or 2017, and accordingly diluted earnings per share are the same as basic earnings per share.

32. 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.

33. Comparative figures

Certain comparative figures have been reclassified to conform to current period's classification with no impact on profit or retained earnings.

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