Abu Dhabi Commercial Bank PJSC

Review report and condensed consolidated interim financial information for the three month period ended March 31, 2018

بنك أبوظبي التجاري
ADCB

Table of contents

Deloitte.

Deloitte & Touche (M.E.)
Level 11, Al Sila Tower
Abu Dhabi Global Market Square
Al Maryah Island
P.O. Box 990
Abu Dhabi
United Arab Emirates

Tel: +971 (0) 2 408 2424
Fax:+971 (0) 2 408 2525
www.deloitte.com

Report on review of condensed consolidated interim financial information

To the Board of Directors of
Abu Dhabi Commercial Bank PJSC
Abu Dhabi
United Arab Emirates

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Abu Dhabi Commercial Bank PJSC as at 31 March 2018 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting".

Deloitte & Touche (M.E.)

Signed by:
Mohammad Khamees Al Tah
Registration No. 717

26 April 2018
Abu Dhabi
United Arab Emirates

Condensed consolidated interim statement of financial position

As at March 31, 2018

	Notes	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Assets			
Cash and balances with central banks, net	5	18,739,069	19,997,123
Deposits and balances due from banks, net	6	17,768,540	11,451,956
Reverse-repo placements, net	7	123,011	98,578
Trading securities	8	580,765	485,301
Derivative financial instruments	9	5,188,142	3,820,364
Investment securities	10	47,498,812	49,191,657
Loans and advances to customers, net	11	162,824,117	163,282,230
Investment in associate		197,770	205,372
Investment properties	13	632,880	634,780
Other assets, net	14	12,152,969	14,875,838
Property and equipment, net		943,031	960,096
Total assets		266,649,106	265,003,295
Liabilities			
Due to banks	15	4,702,866	5,177,129
Derivative financial instruments	9	6,217,656	4,234,481
Deposits from customers	16	166,880,952	163,078,386
Euro commercial paper	17	3,108,236	2,909,845
Borrowings	18	41,542,189	40,555,195
Other liabilities	19	14,484,989	16,603,319
Total liabilities		236,936,888	232,558,355
Equity			
Share capital	20	5,198,231	5,198,231
Share premium		2,419,999	2,419,999
Other reserves	21	7,322,575	7,484,927
Retained earnings		10,771,413	13,341,783
Capital notes	22	4,000,000	4,000,000
Total equity		29,712,218	32,444,940
Total liabilities and equity		266,649,106	265,003,295

This condensed consolidated interim financial information was approved by the Board of Directors and authorised for issue on April 26, 2018 and signed on its behalf by:

Eissa Al Suwaidi
Chairman

Ala'a Eraiqat
Group Chief Executive Officer

Deepak Khullar
Group Chief Financial Officer

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim income statement (unaudited)
For the three month period ended March 31, 2018

	Notes	3 months ended March 31 2018 AED'000	2017 AED'000
Interest income	23	**2,368,328**	2,143,743
Interest expense	24	**(810,729)**	(734,257)
Net interest income		**1,557,599**	1,409,486
Income from Islamic financing		**302,966**	246,373
Islamic profit distribution		**(32,148)**	(24,971)
Net income from Islamic financing		**270,818**	221,402
Total net interest and Islamic financing income		**1,828,417**	1,630,888
Net fees and commission income	25	**350,247**	373,260
Net trading income	26	**131,448**	166,050
Other operating income	27	**44,324**	58,759
Operating income		**2,354,436**	2,228,957
Operating expenses	28	**(770,151)**	(740,139)
Operating profit before impairment allowances		**1,584,285**	1,488,818
Impairment allowances	29	**(380,294)**	(386,384)
Operating profit after impairment allowances		**1,203,991**	1,102,434
Share in profit of associate		**2,682**	3,475
Profit before taxation		**1,206,673**	1,105,909
Overseas tax income/(expense)		**373**	(597)
Net profit for the period		**1,207,046**	1,105,312
Basic and diluted earnings per share (AED)	30	**0.22**	0.20

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of comprehensive income (unaudited)
For the three month period ended March 31, 2018

	3 months ended March 31	
	2018	2017
	AED'000	AED'000
Net profit for the period	**1,207,046**	1,105,312
Items that may be re-classified subsequently to the condensed consolidated interim income statement		
Exchange difference arising on translation of foreign operations (Note 21)	**(4,553)**	9,809
Net movement in cash flow hedge reserve (Note 21)	**(131,169)**	(16,053)
Net movement in fair value of investment securities (Note 21)	**-**	236,860
Net movement in revaluation reserve of debt instruments measured at FVTOCI (Note 21)	**(180,200)**	-
	(315,922)	230,616
Items that may not be re-classified subsequently to the condensed consolidated interim income statement		
Net movement in revaluation reserve of equity instruments measured at FVTOCI (Note 21)	**(2,227)**	-
Other comprehensive (loss)/income for the period	**(318,149)**	230,616
Total comprehensive income for the period	**888,897**	1,335,928

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of changes in equity (unaudited)

For the three month period ended March 31, 2018

	Share capital AED'000	Share premium AED'000	Other reserves AED'000	Retained earnings AED'000	Capital notes AED'000	Total equity AED'000
As at January 1, 2018 (as previously reported)	**5,198,231**	**2,419,999**	**7,484,927**	**13,341,783**	**4,000,000**	**32,444,940**
Effect of change in accounting policy for IFRS 9 (Note 2.1)	**-**	**-**	**149,349**	**(1,510,228)**	**-**	**(1,360,879)**
As at January 1, 2018 (restated)	**5,198,231**	**2,419,999**	**7,634,276**	**11,831,555**	**4,000,000**	**31,084,061**
Net profit for the period	**-**	**-**	**-**	**1,207,046**	**-**	**1,207,046**
Other comprehensive loss for the period	**-**	**-**	**(318,149)**	**-**	**-**	**(318,149)**
Other movements (Note 21)	**-**	**-**	**6,448**	**-**	**-**	**6,448**
Dividends paid to equity holders of the Bank	**-**	**-**	**-**	**(2,183,257)**	**-**	**(2,183,257)**
Capital notes coupon paid (Note 30)	**-**	**-**	**-**	**(83,931)**	**-**	**(83,931)**
As at March 31, 2018	**5,198,231**	**2,419,999**	**7,322,575**	**10,771,413**	**4,000,000**	**29,712,218**
As at January 1, 2017	5,198,231	2,419,999	7,437,283	11,295,372	4,000,000	30,350,885
Net profit for the period	-	-	-	1,105,312	-	1,105,312
Other comprehensive income for the period	-	-	230,616	-	-	230,616
Other movements (Note 21)	-	-	7,020	1,141	-	8,161
Dividends paid to equity holders of the Bank	-	-	-	(2,079,292)	-	(2,079,292)
Capital notes coupon paid (Note 30)	-	-	-	(76,915)	-	(76,915)
As at March 31, 2017	5,198,231	2,419,999	7,674,919	10,245,618	4,000,000	29,538,767

Following the Annual General Meeting held on March 13, 2018, the shareholders approved the distribution of proposed cash dividend of AED 2,183,257 thousand for the year 2017, being AED 0.42 dividend per share and representing 42% of the paid up share capital (For the year 2016 – cash dividend of AED 2,079,292 thousand, being AED 0.40 dividend per share and representing 40% of the paid up share capital).

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of cash flows (unaudited)
For the three month period ended March 31, 2018

	3 months ended March 31	
	2018	2017
	AED'000	AED'000
OPERATING ACTIVITIES		
Profit before taxation	**1,206,673**	1,105,909
Adjustments for:		
Depreciation on property and equipment, net (Note 28)	**42,599**	38,810
Impairment allowances (Note 29)	**431,203**	504,475
Share in profit of associate	**(2,682)**	(3,475)
Discount unwind (Note 12)	**(11,759)**	(13,400)
Net losses/(gains) from disposal of investment securities (Note 27)	**100**	(407)
Interest income on investment securities	**(363,384)**	(270,128)
Interest expense on borrowings and euro commercial paper	**286,081**	237,849
Net losses from trading securities (Note 26)	**3,998**	1,308
Ineffective portion of hedges – gains (Note 9)	**(21,771)**	(20,480)
Employees' incentive plan benefit expense (Note 21)	**6,448**	8,161
Cash flow from operating activities before changes in operating assets and liabilities	**1,577,506**	1,588,622
Decrease in balances with central banks, net	**1,836,500**	3,544,445
Increase in due from banks, net	**(1,262,445)**	(6,625,855)
Net movement in derivative financial instruments	**(63,966)**	50,959
Net purchases of trading securities	**(99,462)**	(211,886)
Increase in loans and advances to customers, net	**(1,087,388)**	(1,841,348)
Increase in other assets, net	**(124,583)**	(101,864)
Increase/(decrease) in due to banks	**629,366**	(485,159)
Increase in deposits from customers	**3,802,909**	6,919,289
Increase/(decrease) in other liabilities	**353,612**	(217,075)
Net cash from operations	**5,562,049**	2,620,128
Overseas tax paid	**-**	(1,306)
Net cash from operating activities	**5,562,049**	2,618,822
INVESTING ACTIVITIES		
Proceeds from redemption/disposal of investment securities	**8,865,329**	3,731,691
Purchase of investment securities	**(7,475,531)**	(11,444,256)
Interest received on investment securities	**361,128**	285,214
Dividends received from associate	**10,284**	9,450
Disposals of investment properties (Note 13)	**1,900**	-
Net purchase of property and equipment	**(25,534)**	(55,842)
Net cash from/(used in) investing activities	**1,737,576**	(7,473,743)
FINANCING ACTIVITIES		
Net increase/(decrease) in euro commercial paper	**191,892**	(37,577)
Net proceeds from borrowings	**10,278,156**	6,271,495
Repayment of borrowings	**(8,762,862)**	(6,634,745)
Interest/swap costs paid on borrowings and euro commercial paper	**(84,798)**	(206,653)
Dividends paid to equity holders of the Bank	**(2,183,257)**	(2,079,292)
Capital notes coupon paid (Note 30)	**(83,931)**	(76,915)
Net cash used in financing activities	**(644,800)**	(2,763,687)
Net increase/(decrease) in cash and cash equivalents	**6,654,825**	(7,618,608)
Cash and cash equivalents at the beginning of the period	**15,811,548**	34,651,119
Cash and cash equivalents at the end of the period	**22,466,373**	27,032,511

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of cash flows (unaudited)
For the three month period ended March 31, 2018

Cash and cash equivalents

Cash and cash equivalents included in the condensed consolidated interim statement of cash flows comprise of following amounts:

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Cash and balances with central banks (Note 5)	**18,739,448**	19,997,123
Deposits and balances due from banks (excluding loans and advances to banks) (Note 6)	**11,884,030**	6,337,824
Reverse-repo placements (Note 7)	**123,196**	98,578
Due to banks (Note 15)	**(4,702,866)**	(5,177,129)
	26,043,808	21,256,396
Less: Cash and balances with central banks, deposits and balances due from banks and reverse-repo placements – with original maturity of more than 3 months	**(5,403,142)**	(6,641,189)
Add: Due to banks – with original maturity of more than 3 months	**1,825,707**	1,196,341
Total cash and cash equivalents	**22,466,373**	15,811,548

The accompanying notes are an integral part of this condensed consolidated interim financial information.

1. Activities and areas of operations

Abu Dhabi Commercial Bank PJSC ("ADCB" or the "Bank") is a public joint stock company with limited liability incorporated in the emirate of Abu Dhabi, United Arab Emirates (UAE). ADCB is principally engaged in the business of retail, commercial and Islamic banking and provision of other financial services through its network of forty nine branches and one pay office in the UAE, two branches in India, one offshore branch in Jersey, its subsidiaries and two representative offices located in London and Singapore.

The registered head office of ADCB is at Abu Dhabi Commercial Bank Head Office Building, Sheikh Zayed Bin Sultan Street, Plot C- 33, Sector E-11, P. O. Box 939, Abu Dhabi, UAE.

The Bank has amended its Articles of Association to ensure its compliance with the provisions of the UAE Federal Law No. 2 of 2015, which came into effect on July 1, 2015.

2. Summary of significant accounting policies

2.1 Changes in accounting policies

The Group has adopted IFRS 9 Financial Instruments as issued by the IASB in July 2014 with a date of transition of January 1, 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised. The Group did not early adopt any of IFRS 9 versions in previous periods.

As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures. All adjustments to carrying amount of financial assets and liabilities at the date of transitions were recognised in opening retained earnings and other reserves of the current period. The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 as permitted under IFRS 9.

Set out below are the disclosures relating to the impact of IFRS 9 on the Group. Further, specific accounting policies applied in the current period on adoption of IFRS 9 are described in Note 2.5.

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at January 1, 2018 are compared as follows:

	Original measurement category as per IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39 AED'000	Remeasurements AED'000	New carrying amount under IFRS 9 AED'000
Cash and balances with central banks, net	Amortised cost	Amortised cost	19,997,123	(282)	19,996,841
Deposits and balances due from banks, net	Amortised cost	Amortised cost	11,451,956	104,862	11,556,818
Reverse-repo placements, net	Amortised cost	Amortised cost	98,578	(81)	98,497
Trading securities	FVTPL	FVTPL	485,301	-	485,301
Investment securities (*)	AFS	FVTOCI	49,191,657	(149,349)	49,191,657
Loans and advances to customers, net	Amortised cost	Amortised cost	163,282,230	(1,107,264)	162,174,966
Other assets, net	Amortised cost	Amortised cost	14,875,838	(11,039)	14,864,799
Letters of credit, guarantees and other commitments	Amortised cost	Amortised cost	53,426,571	(347,075)	53,079,496
Total			**312,809,254**	**(1,510,228)**	**311,448,375**

(*) impairment allowance is included in revaluation reserve of investments carried at FVTOCI and recognised in other comprehensive income.

2. Summary of significant accounting policies (continued)

2.1 Changes in accounting policies (continued)

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at January 1, 2018:

	Impairment allowance under IAS 39 AED'000	Remeasurements AED'000	Impairment allowance under IFRS 9 AED'000
Cash and balances with central banks, net	-	282	282
Deposits and balances due from banks, net	127,246	(104,862)	22,384
Reverse-repo placements, net	-	81	81
Investment securities	56,687	149,349	206,036
Loans and advances to customers, net	5,906,744	1,107,264	7,014,008
Other assets, net	-	11,039	11,039
Letters of credit, guarantees and other commitments	-	347,075	347,075
Total	**6,090,677**	**1,510,228**	**7,600,905**

For further details on the selection of IFRS 9 specific accounting policies and their impact on impairment allowance, refer to Notes 2.5, 3, 4 and 12.

2.2 Basis of preparation

The condensed consolidated interim financial information has been prepared on a going concern basis and in accordance with IAS 34 - Interim Financial Reporting. It does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31, 2017, which were prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee (IFRIC) Interpretations.

The same accounting policies, presentation and methods of computation have been followed in this condensed consolidated interim financial information as were applied in the preparation and presentation of the Group's consolidated financial statements for the year ended December 31, 2017, except for changes in accounting policies mentioned in Note 2.5.

Certain disclosure notes have been reclassified and rearranged from the Group's prior period condensed consolidated interim financial information to conform to the current period's presentation.

For details of related party balances and transactions, refer to Note 37 in the consolidated financial statements for the year ended December 31, 2017. The related party balances and transactions for the three month period ended March 31, 2018 are similar in nature and magnitude. Note 11 of this condensed consolidated interim financial information provide details of lending exposure to government entities.

The results for the three month period ended March 31, 2018 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2018.

The condensed consolidated interim financial information is prepared and presented in United Arab Emirates Dirhams (AED) which is the Group's functional and presentation currency and are rounded off to the nearest thousand unless otherwise indicated.

As required by the Securities and Commodities Authority of the UAE (SCA) Notification No. 2624/2008 dated October 12, 2008, accounting policies relating to investment securities and investment properties have been disclosed in this condensed consolidated interim financial information.

2. Summary of significant accounting policies (continued)

2.2 Basis of preparation (continued)

The preparation of the condensed consolidated interim financial information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The main areas of judgments, estimates and assumptions applied in this condensed consolidated interim financial information, including the key sources of estimation uncertainty were the same as those applied in the Group's consolidated financial statements for the year ended December 31, 2017, except for those introduced on adoption of IFRS 9 (Note 4).

2.3 Application of new and revised International Financial Reporting Standards (IFRSs)

2.3.1 New and revised IFRSs effective for accounting periods beginning on or after January 1, 2018

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1, 2018, have been adopted in these condensed consolidated interim financial information.

The Group applied for the first time, IFRS 9 Financial Instruments that are required to be applied retrospectively with adjustments to be made in the opening balance of equity. As required by IAS 34, the nature and effect of these changes are disclosed in Note 2.1 of the condensed consolidated interim financial information.

In the current period, the Group has also applied the following new accounting standard and amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after January 1, 2018. The application of these new accounting standard and amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group’s future transactions or arrangements.

- IFRS 15 Revenue from Contracts with Customers
- Conceptual Framework for Financial Reporting 2018
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards deleting short-term exemptions for first-time adopters
- Amendments to IFRS 2 Amendments to IFRS 2 Share-based Payment Transactions clarifying the classification and measurement of share-based payment transactions
- Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9
- Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception
- Amendments to IAS 40 Investment properties clarifying transfers or property to, or from, investment property
- Annual Improvements to IFRSs 2014–2016 Cycle to remove short-term exemptions and clarifying certain fair value measurements
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 28 Investments in Associates and Joint Ventures providing clarification on measuring investees at fair value through profit or loss is an investment-by-investment choice

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after January 1, 2018.

2. Summary of significant accounting policies (continued)

2.3 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.3.2 Standards and Interpretations in issue but not yet effective

The Group has not early adopted new and revised IFRSs that have been issued but are not yet effective.

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: - Whether tax treatments should be considered collectively; - Assumptions for taxation authorities' examinations; - The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and - The effect of changes in facts and circumstances.	January 1, 2019
Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 1, 2019
Amendment to IAS 19 Employee Benefits: The Amendments clarify that: - on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and - the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).	January 1, 2019

2. Summary of significant accounting policies (continued)

2.3.2 Standards and Interpretations in issue but not yet effective (continued)

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	January 1, 2020
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these IFRSs and amendments will be adopted in the condensed consolidated interim financial information in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management.

2. Summary of significant accounting policies (continued)

2.4 Basis of consolidation

The condensed consolidated interim financial information incorporates the financial statements of Abu Dhabi Commercial Bank PJSC and its subsidiaries (collectively referred to as the "Group").

Subsidiaries

Subsidiaries are entities controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the condensed consolidated interim financial information from the date that control commences until the date that control ceases.

Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank, the Bank's power over the SPE, exposures or rights to variable returns from its involvement with the SPE and its ability to use its power over the SPE at inception and subsequently to affect the amount of its return, the Bank concludes that it controls the SPE.

The assessment of whether the Bank has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Bank and the SPE except whenever there is a change in the substance of the relationship between the Bank and the SPE.

Funds under management

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the condensed consolidated interim financial information except when the Bank controls the entity, as referred to above.

Loss of control

Upon loss of control, the Bank derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Bank retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Bank's accounting policy for financial instruments depending on the level of influence retained.

Transactions eliminated on consolidation

All intragroup balances and income, expenses and cash flows resulting from intragroup transactions are eliminated in full on consolidation.

Investment in associate

Associates are those entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

2. Summary of significant accounting policies (continued)

2.4 Basis of consolidation (continued)

Investment in associate (continued)

The condensed consolidated interim financial information includes the Group's share of the profit or loss and other comprehensive income of investment in associate, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

Joint operation – when the Group has rights to the assets and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture – when the Group has rights only to the net assets of the arrangements, it accounts for its interest using the equity method, as for associates.

2.5 Significant accounting policies introduced on adoption of IFRS 9

Net interest income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated at fair value through profit or loss (FVPTL) are recognised in 'net interest income' as 'interest income' and 'interest expense' in the profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument 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. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

2. Summary of significant accounting policies (continued)

2.5 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Financial assets

All financial assets are recognised and derecognised on settlement date basis (other than derivative contracts which are recognised and derecognised on trade date basis) where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Settlement date is the date that the Group physically receives or transfers the assets. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

(i) debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;

(ii) debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);

(iii) all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:
- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI) with dividend income recognised in profit or loss; and
- the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

The Group elected for an irrevocable designation for measuring changes in fair value of an equity investment through other comprehensive income.

(a) Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

2. Summary of significant accounting policies (continued)

2.5 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Financial assets (continued)

(a) Debt instruments at amortised cost or at FVTOCI (continued)

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form. An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

(b) Financial assets at FVTPL

Financial assets at FVTPL are:

(i) assets with contractual cash flows that are not SPPI; or/and
(ii) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
(iii) assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

(c) Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

2. Summary of significant accounting policies (continued)

2.5 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Financial assets (continued)

(d) Impairment

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- balances with central banks;
- deposits and balances due from banks;
- reverse-repo placements;
- debt investment securities;
- loans and advances to customers;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in Note 2.5(h).

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

More information on measurement of ECLs is provided in Note 3, including details on how instruments are grouped when they are assessed on a collective basis.

2. Summary of significant accounting policies (continued)

2.5 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Financial assets (continued)

(e) Credit-impaired financial assets

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. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

(f) Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

(g) Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example, in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

2. Summary of significant accounting policies (continued)

2.5 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Financial assets (continued)

(h) Significant increase in credit risk

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information. Refer Note 3 for more details about forward looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour.

The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements;
- significant changes in the actual or expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower; and
- macroeconomic information (such as oil prices or GDP) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis.

2. Summary of significant accounting policies (continued)

2.5 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Financial assets (continued)

(h) Significant increase in credit risk (continued)

However the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

For retail lending the Group considers credit scores and events such as unemployment, bankruptcy or death. As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

(i) Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the

2. Summary of significant accounting policies (continued)

2.5 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Financial assets (continued)

(i) Modification and derecognition of financial assets (continued)

transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

(j) Write-offs

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 180 days past due for retail and SME loans. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

(k) Presentation of allowance for ECL in the condensed consolidated interim financial information

Loss allowances for ECL are presented in the condensed consolidated interim financial information as follows:

- for financial assets measured at amortised cost (loans and advances, balances due from central banks and other banks, reverse-repo placements and other financial assets): as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: as part of revaluation reserve of investments designated at FVTOCI and recognised in other comprehensive income; and
- for loan commitments and financial guarantee contracts: as a provision.

Financial liabilities

(a) Classification and subsequent measurement

Financial liabilities are subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: the classification is applied to derivative instruments and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities, other than derivative instruments, designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;

2. Summary of significant accounting policies (continued)

2.5 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Financial liabilities (continued)

(a) Classification and subsequent measurement (continued)

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer.

(b) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing liabilities, are accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors such as, currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any cost or fees incurred as recognised as part of the gain or loss on extinguishment. If an exchange or modification is not accounted for as an extinguishment, any cost or fees incurred adjust the carrying amount of the liability and are amortised using EIR method over the remaining term of the modified liability.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised as premium less cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the consolidated statement of financial position and the remeasurement is presented in other revenue.

The Group has not designated any financial guarantee contracts as at FVTPL.

2. Summary of significant accounting policies (continued)

2.6 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position date. The fair value is determined on a periodic basis by independent professional valuers.

Investment property under development that is being constructed or developed for future use as investment property is measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Subsequent to initial recognition, investment property under development is measured at fair value.

Gains and losses arising from changes in the fair value of investment property and investment property under development are included in the condensed consolidated interim income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property and investment property under development are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between net disposal proceeds and the carrying amount of the asset) in included in profit or loss in the period in which the property is derecognised.

3. Measurement of ECL

The key inputs into the measurement of ECLs are the term structures of the following variables:

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

These parameters are derived from our internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described below:

PD estimates are estimates at a certain date, which are calculated based on statistical rating models currently used by the Group, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to change in estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model considers the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loans to value (‘LTV’) ratios are key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on 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 Group derives the EAD from the current exposure to the counterparty and the potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, based on historical observation and forward looking forecasts. 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.

3. Measurement of ECL (continued)

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

- instrument type;
- credit risk grading;
- collateral type;
- LTV ratio for retail exposure;
- date of initial recognition;
- remaining term of maturity;
- industry; and
- geography location of the borrower.

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

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2 and 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgments in applying the Group's accounting policies

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the condensed consolidated interim financial information:

- Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.
- Significant increase of credit risk: ECLs are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

4.1 Critical judgments in applying the Group's accounting policies (continued)

- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. instrument type, credit risk grade, collateral type, date of initial recognition, remaining term to maturity, industry, geographic location of the borrower, etc). The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.
- Models and assumptions used: The Group uses various models and assumptions in measuring ECL of financial assets. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. Refer Note 3 for more details on ECL.

4.2 Key sources of estimation uncertainty

The following are key estimations that the management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Group's condensed consolidated interim financial information:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss given default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

5. Cash and balances with central banks, net

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Cash on hand	**1,661,772**	2,729,930
Balances with central banks	**2,148,260**	2,779,542
Reserves maintained with central banks	**11,222,571**	10,814,651
Certificate of deposits with UAE Central Bank	**3,673,000**	3,673,000
Reverse-repo with Central Bank	**33,845**	-
Gross cash and balances with central banks	**18,739,448**	19,997,123
Less: Allowance for impairment (Note 12)	**(379)**	-
Total cash and balances with central banks, net	**18,739,069**	19,997,123
The geographical concentration is as follows:		
Within the UAE	**18,644,489**	19,950,521
Outside the UAE	**94,959**	46,602
	18,739,448	19,997,123
Less: Allowance for impairment (Note 12)	**(379)**	-
	18,739,069	19,997,123

Reserves maintained with central banks represent deposits with the central banks at stipulated percentages of its demand, savings, time and other deposits. These are only available for day-to-day operations under certain specified conditions.

6. Deposits and balances due from banks, net

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Nostro balances	**2,273,084**	1,700,600
Margin deposits	**269,892**	18,989
Time deposits	**6,804,142**	3,808,135
Wakala placements	**2,536,912**	810,100
Loans and advances to banks	**5,905,370**	5,241,378
Gross deposits and balances due from banks	**17,789,400**	11,579,202
Less: Allowance for impairment (Note 12)	**(20,860)**	(127,246)
Total deposits and balances due from banks, net	**17,768,540**	11,451,956
The geographical concentration is as follows:		
Within the UAE	**7,031,173**	3,285,682
Outside the UAE	**10,758,227**	8,293,520
	17,789,400	11,579,202
Less: Allowance for impairment (Note 12)	**(20,860)**	(127,246)
	17,768,540	11,451,956

The Group hedges its foreign currency time deposits for foreign currency exchange rate risk using foreign exchange swap contracts and designates these instruments as cash flow hedges. The net negative fair value of these swaps was AED 87 thousand as at March 31, 2018 (December 31, 2017 – net negative fair value of AED 4,708 thousand).

The Group entered into structured financing repurchase agreements whereby loans and advances to banks were pledged and held by counterparties as collateral. The risks and rewards relating to the loans pledged remains with the Group. The loans placed as collateral are governed under collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements. The following table reflects the carrying value of these loans and the associated financial liabilities:

6. Deposits and balances due from banks, net (continued)

	As at March 31, 2018 (unaudited)		As at December 31, 2017 (audited)	
	Carrying value of pledged loans AED'000	**Carrying value of associated liabilities AED'000**	Carrying value of pledged loans AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	**229,061**	**132,284**	412,711	269,677

7. Reverse-repo placements, net

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Banks and financial institutions	**123,196**	98,578
Less: Allowance for impairment (Note 12)	**(185)**	-
Total reverse-repo placements, net	**123,011**	98,578
The geographical concentration is as follows:		
Within the UAE	**13,015**	48,443
Outside the UAE	**110,181**	50,135
	123,196	98,578
Less: Allowance for impairment (Note 12)	**(185)**	-
	123,011	98,578

The Group enters into reverse repurchase agreements under which bonds with fair value of AED 131,295 thousand (December 31, 2017 – bonds with fair value of AED 99,832 thousand) and cash collateral of AED 187 thousand (December 31, 2017 – AED 275 thousand) were received as collateral against reverse-repo placements. The risks and rewards relating to these bonds remains with the counterparties. The terms and conditions of these collaterals are governed by Global Master Repurchase Agreements (GMRA).

8. Trading securities

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Bonds	**580,765**	485,301
The geographical concentration is as follows:		
Within the UAE	**324,968**	177,175
Outside the UAE	**255,797**	308,126
	580,765	485,301

Bonds represent investments mainly in banks and public sector. The fair value of trading securities is based on quoted market prices.

9. Derivative financial instruments

The table below shows the positive (assets) and negative (liabilities) fair values of derivative financial instruments.

	Fair values		
	Assets AED'000	Liabilities AED'000	Notional AED'000
As at March 31, 2018 (unaudited)			
Derivatives held or issued for trading			
Foreign exchange derivatives	**691,524**	**553,406**	**237,984,773**
Interest rate and cross currency swaps	**2,821,163**	**2,881,289**	**231,285,972**
Interest rate and commodity options	**535,923**	**589,051**	**57,874,091**
Forward rate agreements	**228**	**1,794**	**6,222,083**
Futures (exchange traded)	**536**	**76**	**18,203,459**
Commodity and energy swaps	**276,177**	**259,046**	**4,018,854**
Swaptions	**216,881**	**183,979**	**25,073,243**
Total derivatives held or issued for trading	**4,542,432**	**4,468,641**	**580,662,475**
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	**513,791**	**1,396,673**	**59,730,117**
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	**3,790**	**344,751**	**6,461,598**
Forward foreign exchange contracts	**128,129**	**7,591**	**17,380,875**
Total derivatives held as cashflow hedges	**131,919**	**352,342**	**23,842,473**
Total derivative financial instruments	**5,188,142**	**6,217,656**	**664,235,065**
As at December 31, 2017 (audited)			
Derivatives held or issued for trading			
Foreign exchange derivatives	484,546	379,890	160,934,849
Interest rate and cross currency swaps	2,225,651	2,313,951	218,983,622
Interest rate and commodity options	314,164	333,158	35,840,619
Forward rate agreements	159	163	1,979,419
Futures (exchange traded)	1,670	1,267	22,360,899
Commodity and energy swaps	256,134	248,041	4,060,914
Swaptions	129,968	94,311	16,704,214
Total derivatives held or issued for trading	3,412,292	3,370,781	460,864,536
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	287,165	621,855	57,337,746
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	8,753	217,367	6,492,894
Forward foreign exchange contracts	112,154	24,478	15,908,953
Total derivatives held as cash flow hedges	120,907	241,845	22,401,847
Total derivative financial instruments	3,820,364	4,234,481	540,604,129

The notional amounts indicate the volume of transactions and are neither indicative of the market risk nor credit risk.

The net hedge ineffectiveness gains relating to the fair value and cash flow hedges amounting to AED 21,771 thousand (for the three month period ended March 31, 2017 – net gains of AED 20,480 thousand) has been recognised in the condensed consolidated interim income statement.

As at March 31, 2018, the Group received cash collateral of AED 463,343 thousand (December 31, 2017 – AED 340,556 thousand) and received bonds with fair value of AED 77,821 thousand (December 31, 2017 – AED 40,239 thousand) against positive fair value of derivative assets.

As at March 31, 2018, the Group placed cash collateral of AED 282,454 thousand (December 31, 2017 – AED 26,225 thousand) and bonds of AED 2,062,573 thousand (December 31, 2017 – AED 1,631,481 thousand) against the negative fair value of derivative liabilities. The bonds placed as collaterals include those received by the Group in other structuring arrangements. These collaterals are governed by collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements.

10. Investment securities

	UAE AED'000	Other GCC(*) Countries AED'000	Rest of the world AED'000	Total AED'000
As at March 31, 2018 (unaudited)				
Quoted:				
Government securities	**5,099,648**	**5,226,093**	**7,652,379**	**17,978,120**
Bonds – Public sector	**5,290,038**	**341,255**	**3,702,693**	**9,333,986**
Bonds – Banks and financial institutions	**3,688,145**	**867,796**	**3,840,365**	**8,396,306**
Bonds – Corporate	**673,437**	**174,914**	**306,055**	**1,154,406**
Equity instruments	**453**	**-**	**-**	**453**
Mutual funds	**78,618**	**-**	**87,864**	**166,482**
Total quoted	**14,830,339**	**6,610,058**	**15,589,356**	**37,029,753**
Unquoted:				
Government securities	**9,985,313**	**-**	**-**	**9,985,313**
Bonds – Banks and financial institutions	**-**	**134,818**	**-**	**134,818**
Equity instruments	**338,778**	**-**	**10,150**	**348,928**
Total unquoted	**10,324,091**	**134,818**	**10,150**	**10,469,059**
Total investment securities	**25,154,430**	**6,744,876**	**15,599,506**	**47,498,812**
As at December 31, 2017 (audited)				
Quoted:				
Government securities	4,811,873	4,988,214	9,167,331	18,967,418
Bonds – Public sector	5,143,005	312,498	3,186,957	8,642,460
Bonds – Banks and financial institutions	4,150,039	933,557	4,198,707	9,282,303
Bonds – Corporate	544,191	88,869	259,062	892,122
Equity instruments	490	-	-	490
Mutual funds	77,541	-	85,802	163,343
Total quoted	14,727,139	6,323,138	16,897,859	37,948,136
Unquoted:				
Government securities	10,910,384	-	-	10,910,384
Equity instruments	319,502	-	13,635	333,137
Total unquoted	11,229,886	-	13,635	11,243,521
Total investment securities	25,957,025	6,323,138	16,911,494	49,191,657

(*) Gulf Cooperation Council

As at March 31, 2018, the allowance for impairment on debt instruments designated at FVTOCI amounting to AED 190,466 thousand (Note 12) is included in revaluation reserve of investments carried at FVTOCI and recognised in other comprehensive income.

The Group hedges interest rate and foreign currency risks on certain fixed rate and floating rate investments through interest rate and currency swaps and designates these instruments as fair value and cash flow hedges, respectively. The net negative fair value of these swaps as at March 31, 2018 was AED 333,147 thousand (December 31, 2017 – net negative fair value of AED 314,720 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the condensed consolidated interim income statement.

The Group entered into repurchase agreements whereby bonds were pledged and held by counterparties as collateral. The risks and rewards relating to the investments pledged remains with the Group. The bonds placed as collateral are governed under Global Master Repurchase Agreements (GMRA). The following table reflects the carrying value of these bonds and the associated financial liabilities:

	As at March 31, 2018 (unaudited)		As at December 31, 2017 (audited)	
	Carrying value of pledged securities AED'000	**Carrying value of associated liabilities AED'000**	Carrying value of pledged securities AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	**276,231**	**263,497**	323,660	301,180

10. Investment securities (continued)

Further, the Group pledged investment securities with fair value amounting to AED 2,114,016 thousand (December 31, 2017 – AED 1,305,506 thousand) as collateral against margin calls. The risks and rewards on these pledged investments remains with the Group.

11. Loans and advances to customers, net

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Overdrafts (retail and corporate)	**4,444,833**	4,420,471
Retail loans	**29,168,125**	30,006,710
Corporate loans	**126,815,810**	125,438,313
Credit cards	**4,244,766**	4,367,578
Other facilities	**5,220,844**	4,955,902
Gross loans and advances to customers	**169,894,378**	169,188,974
Less: Allowance for impairment (Note 12)	**(7,070,261)**	(5,906,744)
Total loans and advances to customers, net	**162,824,117**	163,282,230

Islamic financing assets included in the above table are as follows:

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Murabaha	**3,511,374**	3,453,938
Ijara financing	**11,588,766**	11,452,962
Salam	**6,946,441**	7,044,886
Others	**154,605**	150,381
Gross Islamic financing assets	**22,201,186**	22,102,167
Less: Allowance for impairment	**(651,955)**	(434,002)
Total Islamic financing assets, net	**21,549,231**	21,668,165

The Group hedges certain fixed rate and floating rate loans and advances to customers for interest rate risk using interest rate swaps and designates these instruments as fair value and cash flow hedges, respectively. The net negative fair value of these swaps as at March 31, 2018 was AED 51,604 thousand (December 31, 2017 – net negative fair value of AED 49,785 thousand).

The Group entered into structured financing repurchase agreements whereby loans and advances to customers were pledged and held by counterparties as collateral. The risks and rewards relating to the loans pledged remains with the Group. The loans placed as collateral are governed under collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements. The following table reflects the carrying value of these loans and the associated financial liabilities:

	As at March 31, 2018 (unaudited)		As at December 31, 2017 (audited)	
	Carrying value of pledged loans AED'000	**Carrying value of associated liabilities AED'000**	Carrying value of pledged loans AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	**25,504**	**19,033**	30,618	22,848

11. Loans and advances to customers, net (continued)

Further, the Group entered into a security lending and borrowing arrangement, under which loans and advances to customers with nominal value of AED Nil (December 31, 2017 - AED 766,629 thousand) were lent against high quality bonds with nominal value of AED Nil (December 31, 2017 - AED 554,630 thousand). The risks and rewards relating to loans lent and bonds borrowed remains with respective counterparties. The arrangement is governed under the terms and conditions of Global Master Securities Lending Agreement (GMSLA).

The economic activity sector composition of the loans and advances to customers is as follows:

	As at March 31, 2018 (unaudited)			As at December 31, 2017 (audited)		
	Within the UAE AED'000	**Outside the UAE AED'000**	**Total AED'000**	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000
Economic activity sector						
Agriculture	**209,590**	**-**	**209,590**	209,241	-	209,241
Energy	**1,386,101**	**458,251**	**1,844,352**	1,292,858	454,944	1,747,802
Trading	**5,493,423**	**1,119,551**	**6,612,974**	5,115,397	1,036,909	6,152,306
Real estate investment & hospitality	**60,411,155**	**1,372,355**	**61,783,510**	59,886,952	1,524,985	61,411,937
Transport & communication	**1,772,787**	**1,122,791**	**2,895,578**	1,815,749	1,153,523	2,969,272
Personal	**38,789,612**	**147,802**	**38,937,414**	39,722,120	178,963	39,901,083
Government & public sector entities	**34,118,999**	**255,388**	**34,374,387**	34,362,873	255,388	34,618,261
Financial institutions (*)	**10,490,866**	**3,622,887**	**14,113,753**	10,468,012	3,576,142	14,044,154
Manufacturing	**2,631,021**	**2,062,004**	**4,693,025**	2,310,086	2,028,034	4,338,120
Services	**3,253,426**	**302,489**	**3,555,915**	2,810,682	263,441	3,074,123
Others	**822,123**	**51,757**	**873,880**	670,918	51,757	722,675
	159,379,103	**10,515,275**	**169,894,378**	158,664,888	10,524,086	169,188,974
Less: Allowance for impairment (Note 12)			**(7,070,261)**			(5,906,744)
Total loans and advances to customers, net			**162,824,117**			163,282,230

(*) includes investment companies

12. Impairment allowance

The movement in impairment allowance is as follows:

	As at March 31 2018 unaudited AED'000	As at December 31, 2017 (audited) Individual impairment AED'000	Collective impairment AED'000	Total AED'000
Opening balance (*)	**6,090,677**	2,851,323	3,194,421	6,045,744
Effect of change in accounting policy for IFRS 9 (Note 2.1)	**1,510,228**	-	-	-
Opening balance restated	**7,600,905**	2,851,323	3,194,421	6,045,744
Charge/(release) for the period/year	**431,203**	1,952,033	(22,764)	1,929,269
Recoveries during the period/year	**(50,909)**	(258,906)	-	(258,906)
Net charge/(release) for the period/year	**380,294**	1,693,127	(22,764)	1,670,363
Discount unwind	**(11,759)**	(51,515)	-	(51,515)
Net amounts written-off	**(324,451)**	(1,631,744)	-	(1,631,744)
Currency translation	**(384)**	757	385	1,142
Closing balance	**7,644,605**	2,861,948	3,172,042	6,033,990

(*) opening balance includes impairment allowance on investment securities (Note 2.1)

12. Impairment allowance (continued)

Allocation of impairment allowance is as follows:

	As at March 31 2018 unaudited AED'000	As at December 31, 2017 (audited) Individual impairment AED'000	Collective impairment AED'000	Total AED'000
Cash and balances with central banks (Note 5)	**379**	-	-	-
Deposits and balances due from banks (Note 6)	**20,860**	-	127,246	127,246
Reverse-repo placements (Note 7)	**185**	-	-	-
Investment securities (Note 10) (*)	**190,466**	-	-	-
Loans and advances to customers (Note 11)	**7,070,261**	2,861,948	3,044,796	5,906,744
Other assets (Note 14)	**13,373**	-	-	-
Letters of credit, guarantees and other commitments (Note 19)	**349,081**	-	-	-
Total impairment allowance	**7,644,605**	2,861,948	3,172,042	6,033,990

(*) impairment allowance is included in revaluation reserve of investments carried at FVTOCI and recognised in other comprehensive income.

13. Investment properties

	AED'000
As at January 1, 2017	659,776
Additions during the year	9,177
Revaluation of investment properties	(34,173)
As at December 31, 2017 (audited)	**634,780**
Disposals during the period	**(1,900)**
As at March 31, 2018 (unaudited)	**632,880**

Fair valuations

Valuations are carried out by registered independent valuers having an appropriate recognised professional qualification and experience in the location and category of the property being valued. The properties were valued during the last quarter of the year 2017.

In estimating the fair values of the properties, the highest and best use of the properties is their current use.

The valuation methodologies considered by external valuers include:

- Direct comparable method: This method seeks to determine the value of the property from transactions of comparable properties in the vicinity applying adjustments to reflect differences to the subject property.
- Investment method: This method is used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield an investor would expect for an investment of the duration of the interest being valued.

All investment properties of the Group are located within the UAE.

14. Other assets, net

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Interest receivable	**1,732,739**	1,867,461
Advance tax	**7,472**	7,129
Prepayments	**89,736**	76,196
Acceptances (Note 19)	**9,828,182**	12,593,697
Intangible asset	**18,800**	18,800
Others	**489,413**	312,555
Gross other assets	**12,166,342**	14,875,838
Less: Allowance for impairment (Note 12)	**(13,373)**	-
Total other assets, net	**12,152,969**	14,875,838

15. Due to banks

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Vostro balances	**583,537**	822,121
Margin deposits	**363,528**	327,814
Time deposits	**3,755,801**	4,027,194
Total due to banks	**4,702,866**	5,177,129

The Bank hedges certain foreign currency time deposits for foreign currency risk and interest rate risk using foreign exchange and interest rate swaps and designates these as either cash flow hedges or fair value hedges. The net positive fair value of these swaps at March 31, 2018 was AED 114 thousand (December 31, 2017 – net positive fair value of AED 2 thousand).

16. Deposits from customers

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Time deposits	**80,862,786**	80,765,754
Current account deposits	**57,060,078**	55,741,567
Savings deposits	**14,339,985**	13,758,208
Murabaha deposits	**12,893,070**	11,190,454
Long term government deposits	**377,014**	397,282
Margin deposits	**1,348,019**	1,225,121
Total deposits from customers	**166,880,952**	163,078,386

Islamic deposits (excluding Murabaha deposits) included in the above table are as follows:

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Mudaraba term deposits	**835,553**	882,892
Wakala deposits	**2,723,331**	2,498,714
Current account deposits	**5,032,312**	4,751,338
Mudaraba savings deposits	**6,871,989**	6,530,040
Margin deposits	**63,662**	61,028
Total Islamic deposits	**15,526,847**	14,724,012

The Bank hedges certain foreign currency time deposits for foreign currency and interest rate risks using foreign exchange and interest rate swaps and designates these instruments as either cash flow or fair value hedges. The net positive fair value of these swaps as at March 31, 2018 was AED 49,279 thousand (December 31, 2017 – net positive fair value of AED 38,976 thousand).

17. Euro commercial paper

The details of euro commercial paper ("ECP") issuances under the Bank's ECP programme are as follows:

Currency	**As at March 31 2018 unaudited AED'000**	As at December 31 2017 audited AED'000
US dollar (USD)	**1,093,551**	1,159,843
Euro (EUR)	**1,802,640**	1,279,166
GB pound (GBP)	**212,045**	470,836
Total euro commercial paper	**3,108,236**	2,909,845

The Bank hedges certain ECP for foreign currency exchange rate risk through foreign exchange swap contracts and designates these instruments as cash flow hedges. The net positive fair value of these swaps as at March 31, 2018 was AED 71,924 thousand (December 31, 2017 - net positive fair value of AED 71,418 thousand).

The effective interest rate on ECPs issued ranges between negative 0.33% p.a. to positive 2.60% p.a. (December 31, 2017 – between negative 0.35% p.a. to positive 2.11% p.a.).

18. Borrowings

The details of borrowings as at March 31, 2018 (unaudited) are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	-	711,568	872,279	418,645	2,002,492
	Chinese renminbi (CNH)	-	555,993	-	-	555,993
	Euro (EUR)	-	238,176	-	91,605	329,781
	Swiss franc (CHF)	-	-	977,619	-	977,619
	Japanese yen (JPY)	-	52,426	-	-	52,426
	Hong Kong dollar (HKD)	-	148,293	222,608	173,656	544,557
	US dollar (USD)	2,741,103	6,071,037	2,895,256	10,803,052	22,510,448
		2,741,103	7,777,493	4,967,762	11,486,958	26,973,316
Bilateral loans – floating rate	US dollar (USD)	550,950	3,481,646	-	-	4,032,596
Syndicated loan – floating rate	US dollar (USD)	1,468,979	2,199,607	-	-	3,668,586
Certificate of deposits issued	Indian rupee (INR)	362,704	-	-	-	362,704
	US dollar (USD)	-	1,933,683	-	-	1,933,683
Subordinated notes – fixed rate	US dollar (USD)	-	-	2,672,737	1,097,441	3,770,178
	Swiss franc (CHF)	-	-	-	386,312	386,312
Borrowings through repurchase agreements	US dollar (USD)	154,953	-	-	202,333	357,286
	Indian rupee (INR)	57,528	-	-	-	57,528
		5,336,217	15,392,429	7,640,499	13,173,044	41,542,189

The Group hedges certain borrowings for foreign currency exchange rate risk and interest rate risk using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net negative fair value of these swaps as at March 31, 2018 was AED 839,783 thousand.

18. Borrowings (continued)

The details of borrowings as at December 31, 2017 (audited) are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	-	726,523	887,069	427,269	2,040,861
	Chinese renminbi (CNH)	-	393,335	-	-	393,335
	Euro (EUR)	-	229,550	-	87,677	317,227
	Swiss franc (CHF)	-	-	301,908	-	301,908
	Japanese yen (JPY)	-	48,973	-	-	48,973
	Hong Kong dollar (HKD)	-	149,837	225,346	178,076	553,259
	US dollar (USD)	2,753,878	8,503,789	146,833	8,968,534	20,373,034
		2,753,878	10,052,007	1,561,156	9,661,556	24,028,597
Bilateral loans – floating rate	US dollar (USD)	1,285,550	2,746,000	-	-	4,031,550
Syndicated loan – floating rate	US dollar (USD)	734,081	2,932,211	-	-	3,666,292
Certificate of deposits issued	Indian rupee (INR)	283,304	-	-	-	283,304
	US dollar (USD)	1,852,189	1,934,096	-	-	3,786,285
Subordinated notes – fixed rate	US dollar (USD)	-	-	-	3,786,625	3,786,625
	Swiss franc (CHF)	-	-	-	378,837	378,837
Borrowings through repurchase agreements	US dollar (USD)	305,030	-	-	202,333	507,363
	Indian rupee (INR)	86,342	-	-	-	86,342
		7,300,374	17,664,314	1,561,156	14,029,351	40,555,195

The Group hedges certain borrowings for foreign currency exchange rate risk and interest rate risk using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net negative fair value of these swaps as at December 31, 2017 was AED 196,811 thousand.

18. Borrowings (continued)

Interests are payable in arrears and the contractual coupon rates as at March 31, 2018 (unaudited) are as follows:

Instrument	CCY	Within 1 year	1-3 years	3-5 years	Over 5 years
Global medium term notes	AUD	-	Fixed rate of 4.75% p.a.	Fixed rate between 3.73% p.a. to 3.92 % p.a. and quarterly coupons with138 basis points over bank bill swap rate (BBSW)	Fixed rate of 4.50% p.a.
	CNH	-	Fixed rate between 3.85% p.a. to 5.02% p.a.	-	-
	EUR	-	Quarterly coupons between 46 to 59 basis points over Euribor	-	Fixed rate of 0.75% p.a.
	CHF	-	-	Fixed rate of 0.385% p.a.	-
	JPY	-	Fixed rate of 0.68% p.a.	-	-
	HKD	-	Fixed rate between 2.30% p.a. to 2.46% p.a.	Fixed rate between 2.69% p.a. to 3.20% p.a.	Fixed rate between 2.84% p.a. to 2.87% p.a.
	USD	Fixed rate of 3.00% p.a.	Fixed rate between 2.63% p.a. to 2.75% p.a. and quarterly coupons between 61 to 90 basis points over Libor	Fixed rate of 4.00% p.a. and quarterly coupons between 100 to 105 basis points over Libor	Fixed rate between 4.30% p.a. to 5.14% p.a. (*)
Bilateral loans – floating rate	USD	Monthly coupons of 85 basis points over Libor	Monthly coupons between 60 to 80 basis points over Libor and quarterly coupons with 60 basis points over Libor	-	-
Syndicated loan – floating rate	USD	Monthly coupons with 73 basis points and quarterly coupons with 60 basis point over Libor	Quarterly coupons of 95 basis points over Libor	-	-
Certificate of deposits issued	INR	Fixed rate between 6.60% p.a. to 7.60% p.a.	-	-	-
	USD	-	Fixed rate between 2.41 % p.a. to 2.48 % p.a. and quarterly coupons with 114 basis points over Libor	-	-
Subordinated notes – fixed rate	USD	-	-	Fixed rate of 4.50% p.a.	Fixed rate of 3.13% p.a.
	CHF	-	-	-	Fixed rate of 1.89% p.a.
Borrowings through repurchase agreements	USD	Quarterly coupons between 130 to 145 basis points over Libor	-	-	Semi-annual coupons between negative 20 to negative 18 basis points over Libor
	INR	Fixed rate between 6.50% p.a to 7.00 % p.a.	-	-	-

(*) includes AED 10,108,999 thousand 30 year accreting notes with yield ranging between 4.30% p.a. to 5.14% p.a. and are callable at the end of every 5th,6th,7th or 10th year from issue date.

18. Borrowings (continued)

The subordinated fixed rate notes qualify as Tier 2 subordinated loan capital for the first 5 year period till 2018 and thereafter are amortised at the rate of 20% per annum until 2023 for capital adequacy calculation (Note 33). This has been approved by the Central Bank of the UAE. Subordinated notes of AED 1,483,753 thousand mature in 2023 but are callable after 5 years from the issuance date.

19. Other liabilities

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Interest payable	**979,902**	1,015,277
Recognised liability for defined benefit obligation	**462,136**	453,866
Accounts payable and other creditors	**239,084**	249,627
Deferred income	**649,539**	631,168
Acceptances (Note 14)	**9,828,182**	12,593,697
Impairment allowance on letters of credit, guarantees and other commitments (Note 12)	**349,081**	-
Others (*)	**1,977,065**	1,659,684
Total other liabilities	**14,484,989**	16,603,319

(*) includes AED 80,715 thousand against trading securities short sold which are carried at FVTPL (December 31, 2017: AED 77,075 thousand).

20. Share capital

	Authorised	**Issued and fully paid**	
		As at March 31 2018 unaudited	As at December 31 2017 audited
	AED'000	**AED'000**	AED'000
Ordinary shares of AED 1 each	**10,000,000**	**5,198,231**	5,198,231

As at March 31, 2018, Abu Dhabi Investment Council held 62.523% (December 31, 2017 – 62.523%) of the Bank's issued and fully paid up share capital.

21. Other reserves (unaudited)

Reserves movement for the three month period ended March 31, 2018:

	Employees' incentive plan shares, net	Statutory reserve	Legal reserve	General reserve	Contingency reserve	Foreign currency translation reserve	Cash flow reserve	Revaluation reserve of investments designated at FVTOCI (*)	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
As at January 1, 2018 (as previously reported)	**(64,914)**	**2,797,799**	**2,797,799**	**2,000,000**	**150,000**	**(65,195)**	**(190,370)**	**59,808**	**7,484,927**
Effect of change in accounting policy for IFRS 9 (Note 2.1)	-	-	-	-	-	-	-	**149,349**	**149,349**
As at January 1, 2018 (restated)	**(64,914)**	**2,797,799**	**2,797,799**	**2,000,000**	**150,000**	**(65,195)**	**(190,370)**	**209,157**	**7,634,276**
Exchange difference arising on translation of foreign operations	-	-	-	-	-	**(4,553)**	-	-	**(4,553)**
Net fair value changes on cash flow hedges	-	-	-	-	-	-	**(99,485)**	-	**(99,485)**
Net fair value changes reclassified to condensed consolidated interim income statement	-	-	-	-	-	-	**(31,684)**	-	**(31,684)**
Net fair value changes of debt instruments designated at FVTOCI	-	-	-	-	-	-	-	**(180,300)**	**(180,300)**
Net fair value changes reclassified to profit or loss for debt instruments designated at FVTOCI	-	-	-	-	-	-	-	**100**	**100**
Net fair value changes of investments in equity instruments designated as FVTOCI	-	-	-	-	-	-	-	**(2,227)**	**(2,227)**
Total other comprehensive loss for the period	-	-	-	-	-	**(4,553)**	**(131,169)**	**(182,427)**	**(318,149)**
Shares – vested portion	**6,448**	-	-	-	-	-	-	-	**6,448**
As at March 31, 2018	**(58,466)**	**2,797,799**	**2,797,799**	**2,000,000**	**150,000**	**(69,748)**	**(321,539)**	**26,730**	**7,322,575**
As at January 1, 2017	(100,059)	2,797,799	2,797,799	2,000,000	150,000	(78,741)	(143,493)	13,978	7,437,283
Exchange difference arising on translation of foreign operations	-	-	-	-	-	9,809	-	-	9,809
Net fair value changes on cash flow hedges	-	-	-	-	-	-	113,211	-	113,211
Net fair value changes reclassified to condensed consolidated interim income statement	-	-	-	-	-	-	(129,264)	-	(129,264)
Net fair value changes on investment securities	-	-	-	-	-	-	-	237,267	237,267
Net fair value changes released to condensed consolidated interim income statement on disposal of investment securities	-	-	-	-	-	-	-	(407)	(407)
Total other comprehensive income/(loss) for the period	-	-	-	-	-	9,809	(16,053)	236,860	230,616
Fair value adjustments	(1,141)	-	-	-	-	-	-	-	(1,141)
Shares – vested portion	8,161	-	-	-	-	-	-	-	8,161
As at March 31, 2017	(93,039)	2,797,799	2,797,799	2,000,000	150,000	(68,932)	(159,546)	250,838	7,674,919

(*) termed as cumulative changes in fair value in prior period.

22. Capital notes

In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to ADCB's Tier I regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes").

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank. The Notes are direct, unsecured, subordinated obligations of the Bank and rank pari passu without any preference among themselves and the rights and claims of the Note holders will be subordinated to the claims of Senior Creditors. The Notes bore interest at the rate of 6% per annum payable semi-annually until February 2014, and bear a floating interest rate of 6 month Eibor plus 2.3% per annum thereafter. However, the Bank may at its sole discretion elect not to make a coupon payment. The Note holders do not have a right to claim the coupon and an election by the Bank not to service the coupon is not considered an event of default. In addition, there are certain circumstances ("non-payment event") under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

23. Interest income (unaudited)

	3 months ended March 31	
	2018	2017
	AED'000	AED'000
Loans and advances to banks	**103,245**	135,050
Loans and advances to customers	**1,896,187**	1,730,603
Investment securities	**368,896**	278,090
Total interest income	**2,368,328**	2,143,743

24. Interest expense (unaudited)

	3 months ended March 31	
	2018	2017
	AED'000	AED'000
Deposits from banks	**17,958**	9,908
Deposits from customers	**528,624**	504,834
Euro commercial paper	**13,697**	30,267
Borrowings	**250,450**	189,248
Total interest expense	**810,729**	734,257

25. Net fees and commission income (unaudited)

	3 months ended March 31	
	2018	2017
	AED'000	AED'000
Fees and commission income		
Card related fees	**211,808**	199,555
Loan processing fees	**122,724**	145,750
Accounts related fees	**14,894**	13,523
Trade finance commission	**70,367**	65,146
Insurance commission	**15,108**	18,534
Asset management and investment services	**27,489**	27,548
Brokerage fees	**2,463**	6,484
Others	**42,204**	20,717
Total fees and commission income	**507,057**	497,257
Fees and commission expense	**(156,810)**	(123,997)
Net fees and commission income	**350,247**	373,260

26. Net trading income (unaudited)

	3 months ended March 31	
	2018	2017
	AED'000	AED'000
Net gains from dealing in derivatives	**14,030**	22,937
Net gains from dealing in foreign currencies	**121,416**	144,421
Net losses from trading securities	**(3,998)**	(1,308)
Net trading income	**131,448**	166,050

27. Other operating income (unaudited)

	3 months ended March 31	
	2018	2017
	AED'000	AED'000
Property management income	**33,215**	37,703
Rental income	**12,912**	14,157
Net (losses)/gains from disposal of investment securities	**(100)**	407
Losses arising from retirement of hedges	**(5,035)**	-
Others	**3,332**	6,492
Total other operating income	**44,324**	58,759

28. Operating expenses (unaudited)

	3 months ended March 31	
	2018	2017
	AED'000	AED'000
Staff expenses	**468,181**	441,124
Depreciation	**42,599**	38,810
General administrative expenses	**259,371**	260,205
Total operating expenses	**770,151**	740,139

29. Impairment allowances (unaudited)

	3 months ended March 31	
	2018	2017
	AED'000	AED'000
Charge for the period	**431,203**	504,475
Recoveries during the period	**(50,909)**	(118,091)
Total impairment allowances (Note 12)	**380,294**	386,384

30. Earnings per share (unaudited)

Basic and diluted earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Bank and the weighted average number of equity shares outstanding. Diluted earnings per share is calculated by adjusting the weighted average number of equity shares outstanding for the dilutive effects of potential equity shares held on account of employees' incentive plan.

30. Earnings per share (unaudited) (continued)

	3 months ended March 31	
	2018	2017
	AED'000	AED'000
Net profit for the period attributable to the equity holders of the Bank	**1,207,046**	1,105,312
Less: Coupons paid on capital notes (Note 22)	**(83,931)**	(76,915)
Net adjusted profit for the period attributable to the equity holders of the Bank (a)	**1,123,115**	1,028,397
	Number of shares in thousand	
Weighted average number of shares in issue throughout the period	**5,198,231**	5,198,231
Less: Weighted average number of shares resulting from Employees' incentive plan shares	**(12,702)**	(17,682)
Weighted average number of equity shares in issue during the period for basic earnings per share (b)	**5,185,529**	5,180,549
Add: Weighted average number of shares resulting from Employees' incentive plan shares	**12,702**	17,682
Weighted average number of equity shares in issue during the period for diluted earnings per share (c)	**5,198,231**	5,198,231
Basic earnings per share (AED) (a)/(b)	**0.22**	0.20
Diluted earnings per share (AED) (a)/(c)	**0.22**	0.20

31. Commitments and contingent liabilities

The Group has the following commitments and contingent liabilities:

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Letters of credit	**5,526,240**	3,869,821
Guarantees	**26,932,270**	25,214,764
Commitments to extend credit – revocable (*)	**11,937,374**	12,024,786
Commitments to extend credit – irrevocable	**12,313,456**	11,877,423
Total commitments on behalf of customers	**56,709,340**	52,986,794
Commitments for future capital expenditure	**383,373**	380,094
Commitments to invest in investment securities	**98,495**	59,683
Total commitments and contingent liabilities	**57,191,208**	53,426,571

(*) includes AED 7,007,528 thousand (December 31, 2017: AED 6,805,627 thousand) for undrawn credit card limits.

32. Operating segments

The Group has four reportable segments as described below. These segments offer different products and services and are managed separately based on the Group's management and internal reporting structure. The Group's Management Executive Committee (the Chief Operating Decision Maker "CODM"), is responsible for allocation of resources to these segments, whereas, the Group's Performance Management Committee, based on delegation from CODM reviews the performance of these segments on a regular basis.

32. Operating segments (continued)

The following summary describes the operations in each of the Group's reportable segments:

Consumer banking - comprises of retail, wealth management, Islamic financing and investment in associate. It includes loans, deposits and other transactions and balances with retail customers and corporate and private accounts of high net worth individuals and funds management activities.

Wholesale banking - comprises of business banking, cash management, trade finance, corporate finance, small and medium enterprise financing, investment banking, Indian operations, Islamic financing, infrastructure and asset finance, government and public enterprises. It includes loans, deposits and other transactions and balances with corporate customers.

Investments and treasury - comprises of central treasury operations, management of the Group's investment portfolio and interest rate, currency and commodity derivative portfolio and Islamic financing. Investments and treasury undertakes the Group's funding and centralised risk management activities through borrowings, issue of debt securities and use of derivatives for risk management. It also undertakes trading and corporate finance activities and investing in liquid assets such as short-term placements, corporate and government debt securities.

Property management - comprises of real estate management and engineering service operations of subsidiaries - Abu Dhabi Commercial Properties LLC and Abu Dhabi Commercial Engineering Services LLC and rental income of ADCB.

Information regarding the results of each reportable segment is shown below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Performance Management Committee. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The following is an analysis of the Group's revenue and results by operating segments for the three month period ended March 31, 2018 (unaudited):

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	679,153	490,363	370,271	17,812	1,557,599
Net income from Islamic financing	125,307	73,218	70,706	1,587	270,818
Total net interest and Islamic financing income	804,460	563,581	440,977	19,399	1,828,417
Non-interest income	197,135	182,692	94,007	52,185	526,019
Operating expenses	(477,475)	(207,824)	(55,616)	(29,236)	(770,151)
Operating profit before impairment allowances	524,120	538,449	479,368	42,348	1,584,285
Impairment (allowances)/recoveries	(336,791)	(58,546)	15,043	-	(380,294)
Operating profit after impairment allowances	187,329	479,903	494,411	42,348	1,203,991
Share in profit of associate	2,682	-	-	-	2,682
Profit before taxation	190,011	479,903	494,411	42,348	1,206,673
Overseas tax income	-	373	-	-	373
Net profit for the period	190,011	480,276	494,411	42,348	1,207,046
Capital expenditure					25,534
As at March 31, 2018 (unaudited)					
Segment assets	74,115,685	109,422,929	82,506,514	603,978	266,649,106
Segment liabilities	51,578,818	79,166,572	106,146,219	45,279	236,936,888

32. Operating segments (continued)

The following is an analysis of the Group's revenue and results by operating segments for the three month period ended March 31, 2017 (unaudited):

	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	655,014	414,806	315,739	23,927	1,409,486
Net income from Islamic financing	113,655	49,366	57,237	1,144	221,402
Total net interest and Islamic financing income	768,669	464,172	372,976	25,071	1,630,888
Non-interest income	225,630	180,768	133,554	58,117	598,069
Operating expenses	(463,690)	(191,845)	(54,856)	(29,748)	(740,139)
Operating profit before impairment allowances	530,609	453,095	451,674	53,440	1,488,818
Impairment allowances	(290,907)	(95,077)	-	(400)	(386,384)
Operating profit after impairment allowances	239,702	358,018	451,674	53,040	1,102,434
Share in profit of associate	3,475	-	-	-	3,475
Profit before taxation	243,177	358,018	451,674	53,040	1,105,909
Overseas tax expense	-	(597)	-	-	(597)
Net profit for the period	243,177	357,421	451,674	53,040	1,105,312
Capital expenditure					55,842
As at December 31, 2017 (audited)					
Segment assets	76,824,996	110,022,054	77,549,185	607,060	265,003,295
Segment liabilities	52,560,262	83,237,479	96,711,511	49,103	232,558,355

For the purpose of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to reportable segments.

Other disclosures

The following is the analysis of the total operating income of each segment between income from external parties and inter-segment.

	External (unaudited)		**Inter-segment** (unaudited)	
	3 months ended March 31		**3 months ended March 31**	
	2018 AED'000	2017 AED'000	**2018 AED'000**	2017 AED'000
Consumer banking	**1,285,295**	1,228,444	**(283,700)**	(234,145)
Wholesale banking	**995,727**	838,154	**(249,454)**	(193,214)
Investments and treasury	**30,506**	108,660	**504,478**	397,870
Property management	**42,908**	53,699	**28,676**	29,489
Total operating income	**2,354,436**	2,228,957	**-**	-

Geographical information

The Group operates in two principal geographic areas i.e. domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the UAE branches and subsidiaries. International area represents the operations of the Group that originates from its branches in India, Jersey and through its subsidiaries outside UAE. The information regarding the Group's revenue and non-current assets by geographical location are detailed as follows:

	Domestic (unaudited)		**International** (unaudited)	
	3 months ended March 31		**3 months ended March 31**	
	2018 AED'000	2017 AED'000	**2018 AED'000**	2017 AED'000
Income				
Net interest and Islamic financing income	**1,827,643**	1,631,500	**774**	(612)
Non-interest income	**524,726**	595,634	**1,293**	2,435

32. Operating segments (continued)

Geographical information (continued)

	Domestic		International	
	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000	**As at March 31 2018 unaudited AED'000**	As at December 31 2017 audited AED'000
Non-current assets				
Investment in associate	**197,770**	205,372	**-**	-
Investment properties	**632,880**	634,780	**-**	-
Property and equipment, net	**937,232**	954,697	**5,799**	5,399
Intangible asset	**18,800**	18,800	**-**	-

33. Capital adequacy ratio

The ratio calculated in accordance with Basel III guidelines is as follows:

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Common equity tier 1 (CET1) capital		
Share capital (Note 20)	**5,198,231**	5,198,231
Share premium	**2,419,999**	2,419,999
Other reserves (Note 21)	**7,675,850**	7,680,403
Retained earnings	**10,517,890**	13,124,950
Regulatory deductions and adjustments		
Intangible asset (Note 14) (*)	**(18,800)**	(15,040)
Cash flow hedge reserve (Note 21) (*)	**(321,539)**	(152,296)
Employee's incentive plan shares, net (Note 21) (*)	**(58,466)**	(51,932)
Revaluation reserve of investments designated at FVTOCI (Note 21)	**12,029**	26,914
Total CET1 capital	**25,425,194**	28,231,229
Additional tier 1 (AT1) capital		
Capital notes (Note 22)	**4,000,000**	4,000,000
Transitional deduction from AT1 capital (10% for 2017)	**-**	(27,408)
Total AT1 capital	**4,000,000**	3,972,592
Total tier 1 capital	**29,425,194**	32,203,821
Tier 2 capital		
Eligible general provision	**2,246,875**	2,212,762
Subordinated notes (Note 18)	**4,241,620**	4,233,619
Transitional deduction from tier 2 capital (10% for 2017)	**-**	(27,408)
Total tier 2 capital	**6,488,495**	6,418,973
Total regulatory capital	**35,913,689**	38,622,794
Risk-weighted assets		
Credit risk	**179,750,004**	177,020,965
Market risk	**10,488,354**	10,718,938
Operational risk	**15,262,739**	14,529,229
Total risk-weighted assets	**205,501,097**	202,269,132
CET1 ratio	**12.37%**	13.96%
AT1 ratio	**1.95%**	1.96%
Tier 1 ratio	**14.32%**	15.92%
Tier 2 ratio	**3.16%**	3.17%
Capital adequacy ratio	**17.48%**	19.09%

(*) transitional deduction from CET1 (80% for 2017)

33. Capital adequacy ratio (continued)

In December 2010 (revised in June 2011), the Basel Committee on Banking Supervision issued Basel III, a global regulatory framework, to enhance international capital standards. Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity capital requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banking organisations to hold capital in excess of regulatory minimums. In February 2017, the Central Bank of the UAE published enhanced regulatory capital rules vide notifications 52 and 60/2017 which implemented Basel III in the UAE.

To achieve broader macro-prudential goal of protecting the banking sector from the periods of excess aggregate credit growth and in addition to the capital conservation buffer (CCB) requirement, banks may be required to implement the countercyclical buffer (CCyB). Banks must meet CCB and CCyB requirement by using CET1 capital. The level of CCyB requirement will vary between 0% - 2.5% of risk weighted assets and will be communicated by the Central Bank with adequate notice period. Further, to reduce risks related to the failure of domestic systemically relevant institutions, the Central Bank of the UAE has introduced domestic systematically important banks (DSIB) buffer. ADCB has been listed as a DSIB and is required to maintain a DSIB buffer of 0.5% from 2019.

To enable banks to meet the new standards, the notification contains transitional arrangements commencing January 1, 2017 through January 1, 2019. Transitional requirements result in a phase-in of a capital conservation and DSIB buffers over 3 years. As of January 2019, the banks will be required to meet new minimum requirements related to risk-weighted assets as mentioned below:

Transitional arrangement	**2017**	**2018**	**2019**
CET1 including buffers			
- CET1	7.000%	7.000%	7.000%
- CCB	1.250%	1.875%	2.500%
- DSIB buffer	0.250%	0.375%	0.500%
CET1 including buffers	8.500%	9.250%	10.000%
AT1	1.500%	1.500%	1.500%
Tier 1	10.000%	10.750%	11.500%
Tier 2	2.000%	2.000%	2.000%
Minimum capital requirement	12.000%	12.750%	13.500%

34. Fair value hierarchy

Fair value measurements recognised in the condensed consolidated interim financial information

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. 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.

Valuation techniques using observable inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as swaps and forwards which are valued using market standard pricing techniques and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

The category includes derivative financial instruments such as OTC derivatives, commodity derivatives, foreign exchange spot and forward contracts, certain investment securities and borrowings.

Valuation of the derivative financial instruments is made through discounted cash flow method using the applicable yield curve for the duration of the instruments for non-optional derivatives and standard option pricing models such as Black-Scholes and other valuation models for derivatives with options.

Valuation techniques using significant unobservable inputs – Level 3

Financial instruments and investment properties are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Financial instruments under this category mainly includes private equity instruments and funds. The carrying values of these investments are adjusted as follows:

a) Private equity instruments – using the latest available net book value; and
b) Funds – based on the net asset value provided by the fund manager.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Refer Note 13 in respect of valuation methodology used for investment properties.

34. Fair value hierarchy (continued)

Except as detailed in the following table, the Management considers that the carrying amounts of financial assets and liabilities recognised in the condensed consolidated interim financial information does not materially differ from their fair values.

		Level 1	Level 2	Level 3		
As at March 31, 2018 (unaudited)	**Notes**	**Quoted market prices AED'000**	**Observable inputs AED'000**	**Significant unobservable inputs AED'000**	**Total fair value AED'000**	**Carrying value AED'000**
Assets at fair value						
Trading securities	**8**	**580,765**	**-**	**-**	**580,765**	**580,765**
Derivative financial instruments	**9**	**536**	**5,187,606**	**-**	**5,188,142**	**5,188,142**
Investment securities	**10**					
- Quoted		**35,948,307**	**1,081,446**	**-**	**37,029,753**	**37,029,753**
- Unquoted		**-**	**10,120,131**	**348,928**	**10,469,059**	**10,469,059**
Investment properties	**13**	**-**	**-**	**632,880**	**632,880**	**632,880**
Total		**36,529,608**	**16,389,183**	**981,808**	**53,900,599**	**53,900,599**
Liabilities at fair value						
Derivative financial instruments	**9**	**76**	**6,217,580**	**-**	**6,217,656**	**6,217,656**
Other liabilities	**19**	**80,715**	**-**	**-**	**80,715**	**80,715**
Liabilities at amortised cost						
Borrowings	**18**	**17,503,678**	**24,105,653**	**-**	**41,609,331**	**41,542,189**
Total		**17,584,469**	**30,323,233**	**-**	**47,907,702**	**47,840,560**
As at December 31, 2017 (audited)						
Assets at fair value						
Trading securities	8	485,301	-	-	485,301	485,301
Derivative financial instruments	9	1,670	3,818,694	-	3,820,364	3,820,364
Investment securities	10					
- Quoted		35,669,196	2,278,940	-	37,948,136	37,948,136
- Unquoted		-	10,910,384	333,137	11,243,521	11,243,521
Investment properties	13	-	-	634,780	634,780	634,780
Total		36,156,167	17,008,018	967,917	54,132,102	54,132,102
Liabilities at fair value						
Derivative financial instruments	9	1,267	4,233,214	-	4,234,481	4,234,481
Other liabilities	19	77,075	-	-	77,075	77,075
Liabilities at amortised cost						
Borrowings	18	16,707,322	23,176,117	-	39,883,439	40,555,195
Total		16,785,664	27,409,331	-	44,194,995	44,866,751

The Group's OTC derivatives in the trading book are classified as Level 2 as they are valued using inputs that can be observed in the market.

Reconciliation showing the movement in fair values of Level 3 investments carried at FVTOCI is as follows:

	As at March 31 2018 unaudited AED'000	As at December 31 2017 audited AED'000
Opening balance	**333,137**	337,254
Purchases, net during the period/year	**21,378**	13,991
Disposals including capital refunds during the period/year	**(265)**	(20,004)
IFRS 9 transition adjustment (Note 2.1)	**56,687**	-
Adjustment through other comprehensive income during the period/year	**(62,009)**	1,896
Closing balance	**348,928**	333,137

Gain of AED Nil was realised on disposal of Level 3 investments carried at FVTOCI during the period (for the three month period ended March 31, 2017 – gains of AED 773 thousand).

35. Legal proceedings

The Group 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 Group's condensed consolidated interim financial information if disposed unfavourably.