

BASEL II – PILLAR III DISCLOSURES

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OVERVIEW

In November 2009, The Central Bank of the United Arab Emirates (“CBUAE”) issued guidelines for implementation of Basel II Capital Accord in the banks in UAE. As per the circular, the Standardized Approach for Credit Risk was to apply immediately with an expectation that internationally active UAE banks and larger institutions will migrate to the Foundation Internal Rating Based (FIRB) in due course. The CBUAE Basel II framework is intended to strengthen the market discipline and risk management while enhancing the safety and soundness of the banking industry in UAE.

The guidelines for Pillar 1 – Calculation of Credit Risk pertain to the Standardized Approach of Basel II only. One of the major changes brought in with the new guidelines is the ability to apply, on an asset class basis, risk weightings determined from ratings provided by External Credit Assessment Institutions (“ECAI”) approved by CBUAE.

CBUAE requires the Pillar 2 – Supervisory Review Process to focus on each bank’s Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar 1 Capital calculations. The ICAAP should include a risk based forward looking view of, but not limited to, Credit, Market and Operational risk Capital.

The purpose of Pillar 3 – Market Discipline is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The CBUAE supports the enhanced market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposure, risk assessment process and hence the capital adequacy of the institution. The Pillar 3 disclosures, based on a common framework, are an effective means of informing the market about the risks faced by a bank, and provide a consistent and understandable disclosure framework that enhances transparency and comparability.

In compliance with the CBUAE guidelines and Basel II accord, these disclosures include information on the Group’s risk management objectives and policies, risk assessment processes and computation, capital management and capital adequacy.

Quantitative information on risk assessment (per standardized approach) includes:

- Risk weighted assets of the Group - credit risk, market risk and operational risk
- Credit risk profile of gross credit exposure by counterparty classifications, rated/unrated
- Profile of gross credit exposure by economic activity, geographical region and maturity
- Profile of credit risk mitigation by economic activity, geographical region and maturity
- Profile of impaired financing receivables by economic activity and geographical region

Information on capital adequacy includes:

- Capital adequacy computation
- Capital profile – Tier I and Tier II

Introduction

The CBUAE supervises Emirates Islamic Bank PJSC (the “Bank”) and its subsidiaries (together referred to as the “Group”) on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. The capital requirements are computed at a Group level using the Basel II framework of the Basel Committee on Banking Supervision (“Basel Committee”), after applying the amendments advised by the CBUAE, within national discretion. Basel II is structured around three ‘pillars’: minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

Pillar III disclosures 2017

Pillar III complements the minimum capital requirements and the supervisory review process. Its aim is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specified information on the scope of application of Basel II, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution. Disclosures consist of both quantitative and qualitative information and are provided at the consolidated level.

The Central Bank of UAE (‘CBUAE’) issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels,

namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital. The Additional capital buffers (CCB and CCyB- maximum up to 5%) introduced are over and above the minimum CET1 requirement of 7%.

Future Developments

The regulation and supervision of financial institutions is currently undergoing a period of ongoing change in response to the global financial crisis. Increased capital requirements and regulatory focus on Liquidity Risk have been announced by the Basel Committee in October 2010, commonly known as Basel III. These developments are being tracked by the Group and necessary dialogue conducted with the Central Bank of UAE, for timely changes to the Capital Management and Disclosure regimes.

Verification

The Pillar III Disclosures for the year 2017 have been appropriately verified internally and have been reviewed by the Group's statutory auditors.

Implementation of Basel II guidelines

The Group is compliant with Standardized Approach for Credit, Market and Operational Risk (Pillar I) with effect from 31 October 2007.

The Bank also assigns capital on other than Pillar I risk categories, for 'Profit Rate risk on Banking Book' and for 'Business Risk', within the Pillar II framework. Details on Pillar II methodologies are contained in the section – "Capital Management and Stress Testing" of this report.

Group Structure

Emirates Islamic Bank PJSC (formerly Middle East Bank) (the "Bank") was incorporated by a decree of His Highness the Ruler of Dubai as a conventional Bank with a limited liability in the Emirate of Dubai on 3rd of October 1975. The Bank was reregistered as a Public Joint Stock Company in July 1995 and is regulated by the Central Bank of United Arab Emirates.

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

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

In addition to its head office in Dubai, the Bank operates through 64 branches in the UAE. The financial statements combine the activities of the Bank’s head office, its branches and the following subsidiaries (together referred to as “the Group”).

	Date of incorporation & country	Principal activity	Ownership %	
			2017	2016
Emirates Islamic Financial Brokerage Co. LLC	26 April 2006, UAE	Financial brokerage services	100%	100%
EIB Sukuk Company Limited	6 June 2007, Cayman Islands	Special Purpose Entity	100%	100%
EI Funding Limited	15 May 2014, Cayman Islands	Special Purpose Entity	100%	100%

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

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

The Group consolidated financial statements for the year ended 31 December 2017 have been approved for issuance by the Board of Directors on 15 January 2018.

Consolidated Capital Structure

The Group’s regulatory capital is calculated as per the guidelines issued by CBUAE and it comprises:

- a. **Tier 1 Capital** which is considered as the core measure of the Group’s financial strength and includes share capital, reserves, and retained earnings and;
- b. **Tier 2 Capital** which consists of qualified subordinated debts and allowed portions of revaluation reserves & general provisions.

The Bank’s share capital as at 31 December 2017 comprised of 5,430,422,000 issued and fully paid shares of value AED 1 each. The detailed breakdown of the capital structure of the bank is as follows:

EMIRATES ISLAMIC BANK PJSC
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Particulars	2017 AED 000	2016 AED 000
Tier 1 Capital		
1. Paid up share capital/ common stock	5,430,422	5,430,422
2. Reserves	-	-
a. Statutory reserve	410,186	339,986
b. Special reserve	-	-
c. General reserve	1,472,651	898,963
3. Non-controlling interest in the equity of subsidiaries	-	-
4. Innovative capital instruments	-	-
5. Other capital instruments	-	-
6. Surplus capital from insurance companies	-	-
Subtotal	7,313,259	6,669,371
Less: Deductions for regulatory calculation	-	-
Less: Deductions from Tier 1 capital	-	-
Tier 1 Capital - Subtotal (A)	7,313,259	6,669,371
Tier 2 Capital (B)	509,366	533,133
Less: Other deductions from capitals (C)	-	-
Tier 3 Capital (D)	-	-
Total eligible capital after deductions (A+B+C+D)	7,822,625	7,202,504

Capital Adequacy

The Group's Capital Adequacy ratio as at 31 December 2017 was 17.36% and Tier 1 ratio was 16.23% (in 2016, the Capital Adequacy ratio was 16.05% and Tier 1 ratio 14.86%) against the regulatory requirement of minimum of 12% and 8% respectively. The Group ensures adherence to CBUAE requirements by monitoring its Capital Adequacy against higher internal limits.

Emirates Islamic is directly regulated by its local banking supervisor which sets and monitors its capital adequacy requirements. CBUAE also monitors the Capital Adequacy requirements of Emirates NBD at the Group level of which EI is a part of.

CAPITAL ADEQUACY (STANDARDISED APPROACH)

RISK WEIGHTED EXPOSURE

	2017 AED 000	2016 AED 000
Credit risk	40,749,303	41,098,300
Market risk	21,601	14,884
Operational risk	4,301,798	3,756,966
Total	45,072,702	44,870,150

	2017 Capital Charge AED 000	2016 Capital Charge AED 000
Capital Requirements		
Credit Risk	4,889,916	4,931,796
Market Risk	2,592	1,786
Operational Risk	516,216	450,836
Total Capital Requirements	5,408,724	5,384,418

CAPITAL ADEQUACY (STANDARDISED APPROACH)

Capital Ratio	2017	2016
Total for consolidated Group	17.36%	16.05%
Tier 1 ratio for consolidated group	16.23%	14.86%

Note

Risk weighted assets as at 31 December 2017 were AED 45.07 billion and as at 31 December 2016 were AED 44.87 billion.

Standardized Approach – Credit risk & credit risk mitigation

Under Standardized Approach, all credit exposures are assessed according to the counterparty classifications and against the External Credit Assessment Institutions (“ECAI”) ratings as advised under national discretion (November 2009):

- Claims on sovereign and central banks in the GCC are risk weighted at 0%.
- Domestic currency claims on a non-commercial GCC Public Sector Enterprise (PSE) are treated as claims on their sovereigns if their central bank or monetary authority treats them as such. Foreign currency claims on such a PSE are risk weighted one grade less favorable than its sovereign i.e. 20% risk weight. Claims on other foreign PSEs are risk weighted one grade less favorable than its sovereign.
- Claims on commercial companies owned by a GCC sovereign or PSEs that operate as commercial organizations are treated as claims on a corporate and risk weighted in accordance with ratings from acceptable ECAIs.
- ECAI ratings are also used to determine the capital requirements against exposures to banks and financial institutions. The group uses option 2 (one of alternative risk weight and ECAI ratings matrices as prescribed in the Basel II accord) for determining the capital requirements in line with the supervisory discretion adopted by the CBUAE.
- Claims on corporate entities are risk weighted at prescribed risk weights applicable per the latest ECAI rating of the counterparty. Claims on unrated corporate entities are risk weighted at 100%.
- Consumer banking exposure is classified into ‘Qualified Residential Mortgage’, ‘Qualified regulatory retail portfolio’ and ‘Others’; per the CBUAE Basel II guidelines and are risk weighted at 35%, 75% and 100% respectively.
- All other assets are classified between ‘assets under higher risk categories’ and ‘others’; and risk weighted at prescribed risk weights.

For standardized capital adequacy calculations, the following rules are applied consistently to determine the appropriate ECAI ratings:

- Where more ECAI ratings of two acceptable rating agencies are available, the lower (worse) of the two is considered.
- Where the ECAI ratings are split evenly between all four rating agencies, the more conservative ratings are considered.
- Acceptable ECAI agencies are Moody’s, S&P, Fitch and Capital Intelligence.

Basel III Capital Regulations

The Central Bank of UAE (‘CBUAE’) issued Basel III capital regulations, which came into effect from 1 February 2017 (parallel reporting for Q2’17 and Q3’17 and Primary reporting from Q4’17 onwards) introducing minimum capital requirements at three levels, namely Common Equity Tier 1 (‘CET1’), Tier 1 (‘T1’) and Total Capital.

The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced are over and above the minimum CET1 requirement of 7%.

For 2017, CCB is effective in transition arrangement and is required to keep at 1.25% of the Capital base. For 2018, CCB will be required at 1.88% and from 2019; it will be required to keep at 2.5% of the Capital base. CCyB is not in effect and is not required to keep for 2017.

	2017 AED 000
Common Equity Tier 1 (CET1) Capital	
Share Capital	5,430,422
Share premium account	-
Eligible Reserves	727,222
Retained Earnings / (-) Loss	1,155,615
Eligible amount of minority interest	-
Capital shortfall if any	-
CET1 capital Before the regulatory adjustments and threshold deduction	7,313,259
Less: Regulatory deductions	-
Less: Threshold deductions	-
Total CET1 capital after the regulatory adjustments and threshold deduction	7,313,259
Total CET1 capital after transitional arrangement for deductions (CET1) (A)	7,313,259
Additional Tier 1 (AT1) Capital	
Eligible AT1 capital	-
Other AT1 Capital e.g. (Share premium, minority interest)	-
Total AT1 capital	-
Total AT1 capital after transitional arrangements (AT1) (B)	-
Tier 2 (T2) Capital	509,366
Tier 2 Instruments	-
Other Tier 2 capital (including General Provisions, etc.)	509,366
Total T2 Capital	509,366
Total T2 capital after transitional arrangements (T2) (C)	509,366
Total Regulatory Capital (A+B+C)	7,822,625

Capital Ratio	2017	Minimum capital requirement 2017	Minimum capital requirement by 2019
a. Total capital ratio for consolidated Group	17.36%	11.75%	13%
b. Tier 1 ratio only for consolidated Group	16.23%	9.75%	11%
c. CET1 ratio only for consolidated Group	16.23%	8.25%	11%

Credit Risk

The total capital charge for credit risk as at 31 December 2017 is AED 4,890 million (2016: AED 4,931 million).

GROSS CREDIT EXPOSURE AS PER STANDARDISED APPROACH

	2017		2016	
	Gross Exposure AED 000	Risk Weighted Assets AED 000	Gross Exposure AED 000	Risk Weighted Assets AED 000
Claims on sovereigns	13,621,881	311,480	11,875,475	29,755
Claims on non-central government public sector entities	491,265	11,480	439,833	11,654
Claims on multi-lateral development banks	14,503	-	14,514	-
Claims on banks	11,080,267	4,723,684	8,117,131	3,207,663
Claims on securities firms	-	-	-	-
Claims on corporate and Government related entities (GRE)	14,287,864	12,721,425	19,930,875	18,202,209
Claims included in the regulatory retail portfolio	11,215,931	8,407,346	13,512,003	10,383,921
Claims secured by residential property	8,281,982	7,281,092	7,031,906	5,350,107
Claims secured by commercial real estate	3,782,391	3,782,391	365,989	365,989
Past due financing	5,016,391	1,523,264	5,103,807	1,574,560
Higher-risk categories	516,375	774,562	207,993	311,989
Other assets	1,580,211	1,212,579	1,924,024	1,660,453
Claims on securitized assets	-	-	-	-
Credit derivatives (Banks selling protection)	-	-	-	-
Total	69,889,061	40,749,303	68,523,550	41,098,300

Market Risk

Market risks subject to capital charge are as follows:

- Profit Rate Risk
- Foreign Exchange Risk
- Equity Exposure Risk
- Commodity Risk
- Options Risk

Capital charge on profit rate risk and equity exposure risk is restricted to Bank's 'trading book', while capital charge on Foreign exchange risk applies on the bank's entire positions.

The total Capital requirement for Market Risk as at 31 December 2017 is AED 2.592 million (2016: AED 1.786 million) as detailed below:

CAPITAL REQUIREMENT FOR MARKET RISK AS PER STANDARDISED APPROACH

	2017 AED 000	2016 AED 000
	-----	-----
Profit rate risk	322	-
Equity position risk	-	-
Options risk	-	-
Foreign exchange risk	2,270	1,786
	-----	-----
Total capital requirement	2,592	1,786
	=====	=====

Operational Risk

Basel II framework outlines three methods for calculating the risk charge for operational risk – Basic Indicator, Standardized Approach and Advanced Measurement Approach. The Group presently follows the Standardized Approach.

The total capital requirement for Operational Risk as at 31 December 2017 is AED 516.22 million (2016: AED 450.84 million). This charge is computed by categorizing the Group's activities into 8 business lines (as defined by Basel II guidelines) and multiplying the line's three year average gross income by a pre-defined beta factor.

RISK MANAGEMENT OBJECTIVES AND POLICIES

CREDIT RISK

Please refer Note no. 33 in the annual financial statements for detailed risk management objectives and policies on Credit risk

GROSS CREDIT EXPOSURE – CURRENCY CLASSIFICATION

31 DECEMBER 2017

	Financing Receivables AED 000	Sukuk AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off- balance sheet exposures AED 000	Total non- funded AED 000	Total AED 000
Foreign Currency	1,968,020	1,259,037	7,799,787	11,026,844	-	-	1,254,855	1,254,855	12,281,699
AED	36,309,953	-	17,088,183	53,398,136	742,612	-	3,466,614	4,209,226	57,607,362
Total	38,277,973	1,259,037	24,887,970	64,424,980	742,612	-	4,721,469	5,464,081	69,889,061

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	Financing Receivables AED 000	Sukuk AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off- balance sheet exposures AED 000	Total non- funded AED 000	Total AED 000
Foreign Currency	1,797,908	823,130	6,877,542	9,498,580	-	-	1,312,847	1,312,847	10,811,427
AED	39,186,867	-	14,408,900	53,595,767	508,790	-	3,607,566	4,116,356	57,712,123
Total	40,984,775	823,130	21,286,442	63,094,347	508,790	-	4,920,413	5,429,203	68,523,550

Other Assets include Cash & Deposits with Central Bank, Due from Banks, Investment securities [net of Sukuk], Investment properties, Property & Equipment & Other Assets.

The group's credit exposure by Geography and Economic activity, both funded and non-funded is detailed below:

GROSS CREDIT EXPOSURE BY GEOGRAPHY

31 DECEMBER 2017

	Financing Receivables AED 000	Sukuk AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off- balance sheet exposures AED 000	Total non- funded AED 000	Total AED 000
United Arab Emirates	36,008,580	436,296	20,864,993	57,309,869	742,612	-	4,610,024	5,352,636	62,662,505
GCC excluding UAE	1,446,688	440,566	511,395	2,398,649	-	-	832	832	2,399,481
Arab League (excluding GCC)	352,958	-	12,594	365,552	-	-	22	22	365,574
Asia	395,390	196,470	131,415	723,275	-	-	64,653	64,653	787,928
Africa	37,632	-	44	37,676	-	-	-	-	37,676
North America	-	-	(93,015)	(93,015)	-	-	-	-	(93,015)
South America	-	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-	-
Europe	36,725	185,705	3,459,593	3,682,023	-	-	45,938	45,938	3,727,961
Australia	-	-	951	951	-	-	-	-	951
Others	-	-	-	-	-	-	-	-	-
Total	38,277,973	1,259,037	24,887,970	64,424,980	742,612	-	4,721,469	5,464,081	69,889,061

Other Assets include Cash & Deposits with Central Bank, Due from Banks, Investment securities [net of Sukuk], Investment properties, Property & Equipment & Other Assets.

The group's credit exposure by Geography and Economic activity, both funded and non-funded is detailed below (continued):

GROSS CREDIT EXPOSURE BY GEOGRAPHY (continued)

31 DECEMBER 2016

	Financing Receivables AED 000	Sukuk AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off- balance sheet exposures AED 000	Total non- funded AED 000	Total AED 000
United Arab Emirates	39,611,646	114,069	19,399,167	59,124,882	508,790	-	4,815,083	5,323,873	64,448,755
GCC excluding UAE	1,327,505	112,796	620,723	2,061,024	-	-	10,352	10,352	2,071,376
Arab League (excluding GCC)	39,029	-	11,242	50,271	-	-	84,491	84,491	134,762
Asia	929	-	157,389	158,318	-	-	7,101	7,101	165,419
Africa	-	-	-	-	-	-	-	-	-
North America	-	-	389,288	389,288	-	-	-	-	389,288
South America	-	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-	-
Europe	3,443	183,093	707,825	894,361	-	-	3,386	3,386	897,747
Australia	-	-	-	-	-	-	-	-	-
Others	2,223	413,172	808	416,203	-	-	-	-	416,203
Total	40,984,775	823,130	21,286,442	63,094,347	508,790	-	4,920,413	5,429,203	68,523,550

The group's credit exposure by Geography and Economic activity, both funded and non-funded is detailed below (continued):

GROSS CREDIT EXPOSURE BY ECONOMIC ACTIVITY

31 DECEMBER 2017

	Financing Receivables AED 000	Sukuk AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off- balance sheet exposures AED 000	Total non- funded AED 000	Total AED 000
Agriculture, fishing & related activities	17,253	-	-	17,253	1,000	-	13	1,013	18,266
Crude, oil gas, mining & quarrying	43,248	43,972	-	87,220	2,600	-	141	2,741	89,961
Manufacturing	1,242,317	-	-	1,242,317	36,700	-	234,189	270,889	1,513,206
Electricity and water	440,245	57,398	-	497,643	-	-	7,848	7,848	505,491
Construction	1,070,425	-	25	1,070,450	114,184	-	2,098,896	2,213,080	3,283,530
Trade	5,254,723	-	-	5,254,723	321,000	-	681,198	1,002,198	6,256,921
Transport, Storage & Communication	310,755	-	-	310,755	4,000	-	64,936	68,936	379,691
Financial Institutions and Investment companies	1,260,586	517,534	10,449,926	12,228,046	1,200	-	744,443	745,643	12,973,689
Real Estate	4,961,007	75,840	462,943	5,499,790	86,588	-	196,498	283,086	5,782,876
Services	2,193,034	126,782	-	2,319,816	107,340	-	674,089	781,429	3,101,245
Sovereign	103,675	437,511	-	541,186	-	-	-	-	541,186
Personal	20,483,287	-	-	20,483,287	68,000	-	19,218	87,218	20,570,505
All Others	-	-	13,975,076	13,975,076	-	-	-	-	13,975,076
Add: Grossing up of profit in suspense	897,418	-	-	897,418	-	-	-	-	897,418
Total	38,277,973	1,259,037	24,887,970	64,424,980	742,612	-	4,721,469	5,464,081	69,889,061

The group's credit exposure by Geography and Economic activity, both funded and non-funded is detailed below (continued):

GROSS CREDIT EXPOSURE BY ECONOMIC ACTIVITY (continued)

31 DECEMBER 2016

	Financing Receivables AED 000	Sukuk AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off- balance sheet exposures AED 000	Total non- funded AED 000	Total AED 000
Agriculture, fishing & related activities	32,508	-	-	32,508	-	-	280	280	32,788
Crude, oil gas, mining & quarrying	-	-	-	-	-	-	-	-	-
Manufacturing	596,415	-	-	596,415	8,700	-	152,404	161,104	757,519
Construction	798,385	11,476	-	809,861	34,240	-	1,179,552	1,213,792	2,023,653
Trade	2,901,580	-	-	2,901,580	142,000	-	409,234	551,234	3,452,814
Transport, Storage & Communication	355,622	-	-	355,622	-	-	33,692	33,692	389,314
Financial Institutions and Investment companies	1,334,745	593,105	8,101,309	10,029,159	-	-	247,299	247,299	10,276,458
Real Estate	5,241,286	-	784,798	6,026,084	9,000	-	68,588	77,588	6,103,672
Services	3,527,329	58,269	-	3,585,598	70,140	-	1,382,295	1,452,435	5,038,033
Sovereign	241,308	145,767	-	387,075	-	-	-	-	387,075
Personal	21,999,600	-	-	21,999,600	6,455	-	132,295	138,750	22,138,350
All Others	2,812,094	14,513	12,400,335	15,226,942	238,255	-	1,314,774	1,553,029	16,779,971
Add: Grossing up of profit in suspense	1,143,903	-	-	1,143,903	-	-	-	-	1,143,903
Total	40,984,775	823,130	21,286,442	63,094,347	508,790	-	4,920,413	5,429,203	68,523,550

The Gross Credit Exposures as per Standardized Approach with the effect of CRM as detailed below:

GROSS CREDIT EXPOSURE AS PER STANDARDISED APPROACH

31 DECEMBER 2017

	On Balance Sheet		Off Balance Sheet		Total Gross Exposure	Credit Risk Mitigation (CRM)		After CRM	Risk Weighted Assets
	Gross Outstanding	Net Exposure after Credit Conversion Factors (CCF)	Exposure Before CRM	CRM		AED 000	AED 000		
Claims on sovereigns	13,621,881	-	13,621,881	-	13,621,881	13,621,881	-	13,621,881	311,480
Claims on non-central government public sector entities	491,265	-	491,265	-	491,265	491,265	-	491,265	11,480
Claims on multi-lateral development banks	14,503	-	14,503	-	14,503	14,503	-	14,503	-
Claims on banks	10,986,823	93,444	11,080,267	-	11,080,267	11,080,267	-	11,080,267	4,723,684
Claims on securities firms	-	-	-	-	-	-	-	-	-
Claims on corporate and Government related entities (GRE)	8,917,227	5,370,637	14,287,864	-	14,287,864	14,287,864	1,566,441	12,721,423	12,721,425
Claims included in the regulatory retail portfolio	11,215,931	-	11,215,931	-	11,215,931	11,215,931	6,136	11,209,795	8,407,346
Claims secured by residential property	8,281,982	-	8,281,982	-	8,281,982	8,281,982	-	8,281,982	7,281,092
Claims secured by commercial real estate	3,782,391	-	3,782,391	-	3,782,391	3,782,391	-	3,782,391	3,782,391
Past due financing	5,016,391	-	5,016,391	-	1,224,604	1,224,604	-	1,224,604	1,523,264
Higher-risk categories	516,375	-	516,375	-	516,375	516,375	-	516,375	774,562
Other assets	1,580,211	-	1,580,211	-	1,580,211	1,580,211	-	1,580,211	1,212,579
Claims on securitized assets	-	-	-	-	-	-	-	-	-
Credit derivatives (Banks selling position)	-	-	-	-	-	-	-	-	-
Total	64,424,980	5,464,081	69,889,061	5,464,081	66,097,274	66,097,274	1,572,577	64,524,697	40,749,303

GROSS CREDIT EXPOSURE AS PER STANDARDISED APPROACH (continued)

31 DECEMBER 2016

	On Balance Sheet		Off Balance Sheet		Credit Risk Mitigation (CRM)		Risk Weighted Assets AED 000
	Gross Outstanding AED 000	Net Exposure after Credit Conversion Factors (CCF) AED 000	Total Gross Exposure AED 000	Exposure Before CRM AED 000	CRM AED 000	After CRM AED 000	
Claims on sovereigns	11,875,475	-	11,875,475	11,875,475	-	11,875,475	29,755
Claims on non-central government public sector entities	439,833	-	439,833	439,833	-	439,833	11,654
Claims on multi-lateral development banks	14,514	-	14,514	14,514	-	14,514	-
Claims on banks	8,117,131	-	8,117,131	8,117,131	-	8,117,131	3,207,663
Claims on securities firms	-	-	-	-	-	-	-
Claims on corporate and Government related entities (GRE)	14,501,672	5,429,203	19,930,875	19,930,875	1,677,425	18,253,450	18,202,209
Claims included in the regulatory retail portfolio	13,512,003	-	13,512,003	13,512,003	5,817	13,506,186	10,383,921
Claims secured by residential property	7,031,906	-	7,031,906	7,031,906	-	7,031,906	5,350,107
Claims secured by commercial real estate	365,989	-	365,989	365,989	-	365,989	365,989
Past due financing	5,103,807	-	5,103,807	1,306,875	-	1,306,875	1,574,560
Higher-risk categories	207,993	-	207,993	207,993	-	207,993	311,989
Other assets	1,924,024	-	1,924,024	1,924,024	-	1,924,024	1,660,453
Claims on securitized assets	-	-	-	-	-	-	-
Credit derivatives (Banks selling protection)	-	-	-	-	-	-	-
Total	63,094,347	5,429,203	68,523,550	64,726,618	1,683,242	63,043,376	41,098,300

GROSS CREDIT EXPOSURE AS PER STANDARDISED APPROACH (RATED/ UNRATED)

31 DECEMBER 2017

	Rated AED 000	Unrated AED 000	Total Gross Exposure AED 000	Exposure Before CRM AED 000	After CRM AED 000	Risk Weighted Assets AED 000
Claims on sovereigns	481,482	13,140,399	13,621,881	13,621,881	13,621,881	311,480
Claims on non-central government public sector entities	57,398	433,867	491,265	491,265	491,265	11,480
Claims on multi-lateral development banks	14,503	-	14,503	14,503	14,503	-
Claims on banks	262,789	10,817,478	11,080,267	11,080,267	11,080,267	4,723,684
Claims on securities firms	-	-	-	-	-	-
Claims on corporate and Government related entities (GRE)	165,572	14,122,292	14,287,864	14,287,864	12,721,423	12,721,425
Claims included in the regulatory retail portfolio	-	11,215,931	11,215,931	11,215,931	11,209,795	8,407,346
Claims secured by residential property	-	8,281,982	8,281,982	8,281,982	8,281,982	7,281,092
Claims secured by commercial real estate	-	3,782,391	3,782,391	3,782,391	3,782,391	3,782,391
Past due financing	-	5,016,391	5,016,391	1,224,604	1,224,604	1,523,264
Higher-risk categories	-	516,375	516,375	516,375	516,375	774,562
Other assets	-	1,580,211	1,580,211	1,580,211	1,580,211	1,212,579
Claims on securitized assets	-	-	-	-	-	-
Credit derivatives (Banks selling protection)	-	-	-	-	-	-
Total	981,744	68,907,317	69,889,061	66,097,274	64,524,697	40,749,303

GROSS CREDIT EXPOSURE AS PER STANDARD DISED APPROACH (RATED/ UNRATED) (continued)

31 DECEMBER 2016

	Rated	Unrated	Total Gross Exposure	Exposure Before CRM	After CRM	Risk Weighted Assets
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Claims on sovereigns	234,942	11,640,533	11,875,475	11,875,475	11,875,475	29,755
Claims on non-central government public sector entities	58,269	381,564	439,833	439,833	439,833	11,654
Claims on multi-lateral development banks	14,514	-	14,514	14,514	14,514	-
Claims on banks	361,936	7,755,195	8,117,131	8,117,131	8,117,131	3,207,663
Claims on securities firms	-	-	-	-	-	-
Claims on corporate and Government related entities (GRE)	125,654	19,805,221	19,930,875	19,930,875	18,253,450	18,202,209
Claims included in the regulatory retail portfolio	-	13,512,003	13,512,003	13,512,003	13,506,186	10,383,921
Claims secured by residential property	-	7,031,906	7,031,906	7,031,906	7,031,906	5,350,107
Claims secured by commercial real estate	-	365,989	365,989	365,989	365,989	365,989
Past due financing	-	5,103,807	5,103,807	1,306,875	1,306,875	1,574,560
Higher-risk categories	-	207,993	207,993	207,993	207,993	311,989
Other assets	5,185	1,918,839	1,924,024	1,924,024	1,924,024	1,660,453
Claims on securitized assets	-	-	-	-	-	-
Credit derivatives (Banks selling protection)	-	-	-	-	-	-
Total	800,500	67,723,050	68,523,550	64,726,618	63,043,376	41,098,300

EXPOSURE SUBJECT TO DEDUCTION AS PER STANDARDISED APPROACH (RATED/ UNRATED)

31 DECEMBER 2017

	Rated AED 000	Unrated AED 000	Total Gross Exposure AED 000	Exposure Before CRM AED 000	After CRM AED 000	Risk Weighted Assets AED 000
Claims on sovereigns	-	-	-	-	-	-
Claims on non-central government public sector entities	-	-	-	-	-	-
Claims on multi-lateral development banks	-	-	-	-	-	-
Claims on banks	-	-	-	-	-	-
Claims on securities firms	-	-	-	-	-	-
Claims on corporate and Government related entities (GRE)	-	4,767,691	4,767,691	4,767,691	3,201,251	3,201,251
Claims included in the regulatory retail portfolio	-	6,136	6,136	6,136	-	-
Claims secured by residential property	-	-	-	-	-	-
Claims secured by commercial real estate	-	-	-	-	-	-
Past due financing	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Claims on securitized assets	-	-	-	-	-	-
Credit derivatives (Banks selling protection)	-	-	-	-	-	-
Total	-	4,773,827	4,773,827	4,773,827	3,201,251	3,201,251

EXPOSURE SUBJECT TO DEDUCTION AS PER STANDARD DISED APPROACH (RATED/ UNRATED) (continued)

31 DECEMBER 2016

	Rated	Unrated	Total Gross Exposure	Exposure Before CRM	After CRM	Risk Weighted Assets
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Claims on sovereigns	-	-	-	-	-	-
Claims on non-central government public sector entities	-	-	-	-	-	-
Claims on multi-lateral development banks	-	-	-	-	-	-
Claims on banks	-	-	-	-	-	-
Claims on securities firms	-	-	-	-	-	-
Claims on corporate and Government related entities (GRE)	-	5,172,813	5,172,813	5,172,813	3,495,388	3,495,388
Claims included in the regulatory retail portfolio	-	5,817	5,817	5,817	-	-
Claims secured by residential property	-	-	-	-	-	-
Claims secured by commercial real estate	-	-	-	-	-	-
Past due financing	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Claims on securitized assets	-	-	-	-	-	-
Credit derivatives (Banks selling protection)	-	-	-	-	-	-
Total	-	5,178,630	5,178,630	5,178,630	3,495,388	3,495,388

CREDIT RISK MITIGATION AS PER STANDARDISED APPROACH

	2017		2016	
	Gross credit exposure (AED 000)	Risk weighted assets (AED 000)	Gross credit exposure (AED 000)	Risk weighted assets (AED 000)
Gross exposure prior to credit risk mitigation	69,889,061	46,113,667	68,523,550	46,578,474
Exposure covered by on-balance sheet netting	(3,944,757)	(3,944,757)	(3,962,840)	(3,962,840)
Exposure covered by eligible financial collateral	(1,419,607)	(1,419,607)	(1,517,334)	(1,517,334)
Exposures covered by Guarantees	-	-	-	-
Net exposure after credit risk mitigation	64,524,697	40,749,303	63,043,376	41,098,300

The details of impaired financing by Geography and Economic Activity are as below:

IMPAIRED FINANCING BY ECONOMIC ACTIVITY

31 DECEMBER 2017

	Overdue (Gross of Profit in Suspense/ Provisions)		Provisions		Adjustments		Profit in Suspense AED 000	Total Impaired Assets AED 000
	Less than 90 days AED 000	90 days and above AED 000	Specific AED 000	General AED 000	Write-offs AED 000	Write-backs AED 000		
Agriculture, fishing & related activities	-	3,975	3,733	-	-	-	296	(54)
Crude, oil gas, mining & quarrying	-	39,120	37,551	-	-	1,449	1,570	(1)
Manufacturing	-	232,109	170,997	-	-	5,096	4,786	56,326
Electricity and Water	-	-	-	-	-	-	-	-
Construction	-	310,584	269,030	-	-	62,575	9,234	32,320
Trade	-	744,246	606,940	-	-	42,697	40,558	96,748
Transport, Storage & Communication	-	74,776	73,967	-	-	2,006	1,021	(212)
Financial Institutions	-	81,419	75,872	-	-	2,128	5,547	-
Real Estate	-	1,846,514	915,708	-	-	71,954	368,347	562,459
Services	-	667,551	366,576	-	-	43,698	54,544	246,431
Sovereign	-	-	-	-	-	-	-	-
Personal	-	1,016,097	373,995	-	680,316	48,910	411,515	230,587
All Others	-	-	-	-	-	-	-	-
Total	-	5,016,391	2,894,369	-	680,316	280,513	897,418	1,224,604

IMPAIRED FINANCING BY ECONOMIC ACTIVITY (continued)

31 DECEMBER 2016

	Overdue (Gross of Profit in Suspense/ Provisions)		Provisions		Adjustments		Total Impaired Assets AED 000
	Less than 90 days AED 000	90 days and above AED 000	Specific AED 000	General AED 000	Write-offs AED 000	Write- backs AED 000	
Agriculture, fishing & related activities	-	-	-	-	-	-	-
Crude, oil gas, mining & quarrying	-	-	-	-	-	-	-
Manufacturing	-	85,010	83,377	-	-	43	1,621
Construction	-	237,673	98,638	-	-	-	4,118
Trade	-	560,424	531,182	-	-	3,642	29,121
Transport, Storage & Communication	-	5,976	5,153	-	-	289	577
Financial Institutions	-	403,986	146,423	-	-	176,390	39,328
Real Estate	-	1,397,412	801,555	-	-	110,416	312,448
Services	-	724,339	453,923	-	-	9,878	29,279
Sovereign	-	-	-	-	-	-	-
Personal	-	1,390,474	261,934	-	833,629	98,229	713,806
All Others	-	300,246	270,843	-	-	192,186	13,605
Total	-	5,105,540	2,653,028	-	833,629	591,073	1,143,903
							1,306,876

IMPAIRED FINANCING BY GEOGRAPHY

31 DECEMBER 2017

	Overdue (Gross of Profit in Suspense/ Provisions)		Provisions		Adjustments		Profit in Suspense AED 000	Total Impaired Assets AED 000
	Less than 90 days AED 000	90 days and above AED 000	Specific AED 000	General AED 000	Write-offs AED 000	Write-backs AED 000		
United Arab Emirates	-	4,835,577	4,835,577	-	680,316	272,449	893,239	1,220,366
GCC excluding UAE	-	141,694	141,694	-	-	6,615	2,609	4,239
Arab League (excluding GCC)	-	39,120	39,120	-	-	1,449	1,570	(1)
Asia	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Total	-	5,016,391	5,016,391	-	680,316	280,513	897,418	1,224,604

IMPAIRED FINANCING BY GEOGRAPHY (continued)

31 DECEMBER 2016

	Overdue (Gross of Profit in Suspense/ Provisions)		Provisions		Adjustments		Profit in Suspense AED 000	Total Impaired Assets AED 000
	Less than 90 days AED 000	90 days and above AED 000	Specific AED 000	General AED 000	Write-offs AED 000	Write-backs AED 000		
United Arab Emirates	-	4,923,131	2,472,567	-	833,629	591,073	1,142,696	1,306,135
GCC excluding UAE	-	144,738	141,461	-	-	-	845	2,432
Arab League (excluding GCC)	-	37,671	39,000	-	-	-	362	(1,691)
Asia	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Total	-	5,105,540	2,653,028	-	833,629	591,073	1,143,903	1,306,876

RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED FINANCING

	2017 AED 000 -----	2016 AED 000 -----
Balance of provision for impaired financing as at 1 January	2,653,028	2,242,788
Add: Charge for the year		
Specific Provisions	1,202,173	1,808,826
General Provisions	-	-
Less: Write-off of impaired financing	(680,316)	(833,629)
Less: Recovery of financing previously written off	-	-
Less: Write back / Recovery of loan loss provisions	(280,513)	(591,073)
Adjustments of loan loss provisions	-	26,116
Balance of provision for impaired financing as at 31 December	2,894,372 =====	2,653,028 =====

RISK MANAGEMENT OBJECTIVES AND POLICIES

MARKET RISK

Please refer Note no. 33 in the annual financial statements for detailed risk management objectives.

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK

31 DECEMBER 2017

(a) Quantitative Details of Equity Position Type	FS Category (AFS/FVPL)	Base I II Category (Banking book)	AED 000	
			Publicly Traded	Current Year Privately Held
Equities	389,197	389,197	33,140	356,057
Collective investment schemes	-	-	-	-
Any other investment	160,318	160,318	-	160,318
Total	549,515	549,515	33,140	516,375
(b) Realized, Unrealized & Latent revaluation gains/ (losses) during the year				
Particulars	AED 000			
Gains (Losses)	AFS			
Realized gains (losses) from sale and liquidations	84,087			
Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account	-			
Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet or profit and loss account	(26,809)			
Total	57,278			
(c) Items in (b) above included in Tier I / Tier II Capital				
Tier Capital	AED 000			
Amount included in Tier I capital (realized gains)	84,087			
Amount included in Tier II capital (unrealized gains)	(26,809)			
Total	57,278			

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK (Continued)

31 DECEMBER 2017

(d) Capital requirements by Equity groupings

	AED 000
Grouping	Amount
Investments in associates and joint ventures	-
Investment Securities	65,942
Held for Trading	-
Total capital requirement	64,568

(e) Equity Investments (Quoted/ Unquoted) - Including private equity investments

Particulars	AED 000
	Banking Book (Per Basel II Definition)
Quoted	33,140
Unquoted	516,374
Total	549,514
	Trading Book (Per Basel II Definition)
	-
	-
	-

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK (continued)

31 DECEMBER 2016

(a) Quantitative Details of Equity Position

Type	FS Category (AFS/FVPL)	Basel II Category (Banking book)	Publicly Traded	Current Year Privately Held	AED 000
Equities	448,091	448,091	54,234	393,857	
Collective investment schemes	-	-	-	-	
Any other investment	207,993	207,993	25	207,968	
Total	656,084	656,084	54,259	601,825	

(b) Realized, Unrealized & Latent revaluation gains/(losses) during the year

Particulars	AED 000 AFS
Gains (Losses)	
Realized gains (losses) from sale and liquidations	14,370
Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account	-
Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet or profit and loss account	23,531
Total	37,901

(c) Items in (b) above included in Tier I/ Tier II Capital

Tier Capital	AED 000 Amount
Amount included in Tier I capital (realized gains)	14,370
Amount included in Tier II capital (unrealised gains)	23,531
Total	37,901

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK (Continued)

31 DECEMBER 2016

(d) Capital requirements by Equity groupings

	AED 000
Grouping	Amount
Investments in associates and joint ventures	-
Investment Securities	78,730
Held for Trading	-
Total capital requirement	78,730

(e) Equity Investments (Quoted/ Unquoted) - Including private equity investments

Particulars	AED 000	
	Banking Book (Per Basel II Definition)	Trading Book (Per Basel II Definition)
Quoted	54,259	-
Unquoted	601,825	-
Total	656,084	-

RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign Exchange Risk

Foreign exchange risk hedging strategies are used to ensure that positions are always within established limits. The Group has a conservative policy towards foreign exchange risk and has set limits on positions by currency. Foreign exchange risk is measured using position reports showing the net long or short position for currencies, which are monitored on a real-time basis. Foreign exchange risk is actively managed using spot and forward foreign exchange instruments.

The capital requirement for foreign exchange risk as at 31 December 2017 is AED 2.27 million (as at 31 December 2016 is AED 1.79 million).

Operational Risk

Please refer Note no. 30 in the annual financial statements for detailed risk management objectives and policies for Operational risk.

Liquidity Risk

Please refer Note no. 30 in the annual financial statements for detailed risk management objectives and policies for Liquidity risk.

The following table lists the Group's exposures by Residual Maturity:

31 DECEMBER 2017

	Financing Receivables	Sukuk	Other assets	Total funded	Commitments	OTC derivatives	Other off- balance sheet exposures	Total non- funded	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Less than 3 months	9,103,291	196,469	21,079,775	30,379,535	742,612	-	3,542,818	4,285,430	34,664,965
3 months to 1 year	6,261,253	153,898	2,001,218	8,416,369	-	-	894,175	894,175	9,310,544
1 year to 5 years	9,835,400	650,655	-	10,486,055	-	-	284,476	284,476	10,770,531
Over 5 years	9,286,239	258,015	1,806,977	11,351,231	-	-	-	-	11,351,231
Add: Grossing up of profit in suspense & provisions	3,791,790	-	-	3,791,790	-	-	-	-	3,791,790
Total	38,277,973	1,259,037	24,887,970	64,424,980	742,612	-	4,721,469	5,464,081	69,889,061

Other Assets include Cash & Deposits with Central Bank, Due from Banks, Investment securities [net of Sukuk], Investment properties, Investment in associate and joint ventures, Property & Equipment & Other Assets.

31 DECEMBER 2016

	Financing Receivables	Sukuk	Other assets	Total funded	Commitments	OTC derivatives	Other off- balance sheet exposures	Total non- funded	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Less than 3 months	5,418,189	91,812	15,196,904	20,706,905	508,790	-	2,632,343	3,141,133	23,848,038
3 months to 1 year	3,120,903	191,085	2,347,189	5,659,177	-	-	1,716,765	1,716,765	7,375,942
1 year to 5 years	16,283,896	417,964	1,873,901	18,575,761	-	-	571,290	571,290	19,147,051
Over 5 years	12,364,856	122,269	1,868,448	14,355,573	-	-	15	15	14,355,588
Add: Grossing up of profit in suspense & provisions	3,796,931	-	-	3,796,931	-	-	-	-	3,796,931
Total	40,984,775	823,130	21,286,442	63,094,342	508,790	-	4,920,413	5,429,203	68,523,550

RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Reputational Risk

Please refer Note no. 30 in the annual financial statements for detailed risk management objectives and policies for reputation risk.

Regulatory/Compliance Risk

Please refer Note no. 30 in the annual financial statements for detailed risk management objectives and policies for Regulatory/compliance risk.

Business Risk

Please refer Note no. 30 in the annual financial statements for detailed risk management objectives and policies for Business risk.

Capital management policies and stress testing

Please refer Note no. 30 in the annual financial statements for detailed risk management objectives and policies for Capital management policies and stress testing.