NOOR BANK

Noor gets it done

Annual Report 2018

Contents

His Highness Sheikh Khalifa bin Zayed Al Nahyan

President of the United Arab Emirates

His Highness Sheikh Mohammed bin Rashid Al Maktoum

Vice President and Prime Minister of the United Arab Emirates and Ruler of the Emirate of Dubai

Bank Overview

Noor Bank (formerly Noor Islamic Bank) was established in January 2008, in Dubai - United Arab Emirates. Among the youngest banks in the country, Noor Bank has achieved significant growth in the past 11 years. Today, in 2019, as we continue to grow, we are ranked the 10th largest bank in the UAE in terms of asset size.

Noor Bank is a full-service Shari'ah-compliant bank, offering a comprehensive range of products and services - in wholesale and personal banking, wealth management, treasury and trading. We have a presence across the country, at multiple locations in Abu Dhabi, Dubai, Sharjah and Al Ain.

Noor Bank is committed to bringing to our customers creative, innovative and responsible products and services, tailored to suit their specific business and personal needs. Our efforts to provide professional services and build lasting relationships continue to win us new customers, including individuals, investors, institutions, companies and governments across all operations.

In addition to the esteemed Board of Directors, Noor Bank is also supervised by an Internal Shari'ah Supervision Committee, and a team of reputed scholars oversee and ensure Islamic compliance on all legal documentation, products, services, financial and banking matters. Noor Bank is rated "A-" IDR with a stable outlook by Fitch Ratings.

Our purpose

To make a difference for the better

Our vision

To be recognised as the world's best contemporary Shari'ah compliant bank

Our mission

Empowering people to deliver outstanding customer experiences

Our values

Integrity, Innovation, Excellence, Agility and Collaboration

Board of Directors

H.H. Sheikh Ahmed bin Mohammed bin Rashid Al Maktoum
Chairman

H.E. Essa Abdulfattah Kazim Al Mulla
Vice Chairman

Raed Mohammed Khalifa Kajoor Alnuaimi
Board Member

Edris Mohammad Rafi Mohammad Saeed Alrafi
Board Member

Rashid Mohamed Rashid Al Mutawa
Board Member

Dr. Mohammed Ahmed Mohammed Al Zarooni
Board Member

Mohamed Sulaiman Abdulaziz Almulla
Board Member

Dr. Amina Alrustamani*
Board Member

Narayanan Rajagopalan Yegna
Board Member

*Resigned effective 01 January 2019

Management Team

John Iossifidis
Chief Executive Officer

Dr. Adnan Aziz
Head of Shari'ah

Biju Nair
Head of Internal Audit

Damian White
Treasurer

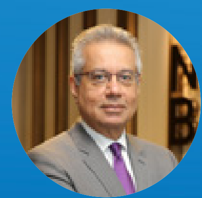
Gail Stanley
Head of Organisational Effectiveness

Gopala Ramani
Chief Risk Officer

Hamid Butt
Head of Financial Institutions and Investment Banking

Hind Al Attar
Head of Human Resources

Kazim Ali
Head of Corporate Banking



Mahendra Gursahani
Chief Operating Officer

Mufazzal Kajiji
Head of Retail Banking

Sami Al Awadi
Chief Compliance Officer & Head of Government Relations

Vicky Bhatia
Chief Financial Officer

Corporate Governance

Introduction

The Bank believes that good corporate governance is an important enabler in delivering long-term and sustainable shareholder value, ensuring that the Bank's behaviour is ethical, legal and transparent and creating trust and engagement between the Bank and its stakeholders. The Bank is committed to embedding strong corporate governance practices through a robust corporate governance framework.

The key premise used in the development of the Bank's governance framework is that corporate governance:

- supports the compliance with regulation and legislation at all times and in the interest of all our stake holders;
- extends throughout the Bank, including elements of enterprise risk management, management and oversight, talent development and culture, reporting and communication, and sustainability;
- requires transparency of disclosure, effective communication and proper measurement and accountability which is continuously reviewed to reflect good governance practices and changes in the internal and external environment.

The cornerstone of good corporate governance is transparency and in pursuit of this, we make sure that our stakeholders, which include our shareholders, investors, customers, employees, suppliers, regulators, government and local communities, are kept up to date through different communication channels.

Corporate Governance Structure

The Bank's corporate governance structure comprises the following levels which allows for clear decision making and flow of information:

- **Board:** has the ultimate responsibility for ensuring the effectiveness of the Bank's governance structure. The Board is responsible for delegating authority within the organisation.
- **Board-level and management committees:** The Board delegates responsibilities to committees in carrying out its functions and establishes standards for the control and governance of the Bank. Committees have responsibilities and authorities as defined by their Terms of Reference.
- **Functions:** The Bank operates a three lines of defence model which ensures clear delineation of responsibilities between day-to-day operations, monitoring and oversight and independent assurance, in line with internal policies and in compliance with applicable laws and regulations. The Shari'ah department provides on-going oversight and assurance of the Bank's adherence to Shari'ah principles, with a reporting line to the Internal Shari'ah Supervision Committee. Independent assurance is provided to the Board through Audit and Risk Committees and the Internal Shari'ah Supervision Committee.
- **Individuals:** Roles have been clearly defined within the organisation with appropriate authorities identified as part of the Bank's Delegation of Authority Framework to facilitate the execution of the strategy and achievement of the strategic priorities.

The Board of Directors

The Board is ultimately accountable for the overall direction, supervision and control of the Bank and for delivering sustainable stakeholder value within a framework of prudent and effective controls.

In accordance with the Bank's Articles of Association and UAE Federal Law No. (2) of 2015 concerning Commercial Companies, the Bank's Board comprises nine members. All the Board members are non-executive.

The Bank's Board was re-appointed by the Government of Dubai for a three-year term in 2017. Subsequently, Directors are appointed by the General Assembly of the Bank. In accordance with the Bank's Articles of Association, a majority of the Directors and the Chairman must be UAE nationals. The Board is appointed for a term of three years and members may be re-elected. The Board met four times in 2018.

The Board members are listed below.

Director	Appointed	Position
H.H. Sheikh Ahmed Bin Mohammed Bin Rashed Al Maktoum	June 2011	Chair
H.E. Essa Abdulfattah Kazim Al Mulla	April 2007	Vice Chair
Dr. Mohammed Ahmed Al Zarooni	March 2017	Member
Dr. Amina Abdulwahed Hassan Alrustamani*	March 2017	Member
Rashid Mohamed Rashid Al Mutawa	March 2017	Member
Edris Mohammad Rafi Mohammad Saeed Alrafi	February 2017	Member
Raed Mohammed Khalifa Kajoor AlNuaimi	February 2017	Member
Mohamed Sulaiman Abdulaziz Almulla	January 2018	Member
Narayanan Rajagopalan Yegna	February 2017	Member

* Dr. Amina Alrustamani resigned from the Board with effect from 1 January 2019.

The roles of the Chairman and the Chief Executive Officer are distinct and separate, with a clear division of responsibilities.

The directors receive accurate, timely and clear information on all relevant matters. A formal induction process exists for new directors joining the Board, including meetings with other directors and members of senior management. The Bank provides professional development sessions on topics that are relevant to the exercise of the Board's duties.

Board Committees

The Board has established four Board Committees comprising directors, that meet regularly and continued to work effectively and independently in 2018:

- **The Board Executive and Credit Committee (BECC):** The purpose of the BECC is to oversee the management of the Bank on behalf of the Board and review and approve credit exposures which exceed thresholds established for management. The BECC is also responsible for reviewing strategic matters which are to be presented to the Board and do not fall within the purview of any other committee of the Board. The BECC comprises four members.
- **The Board Risk Committee (BRC):** The purpose of the BRC is to assist the Board to provide oversight of the Bank's risk management framework and advise the Board on the Bank's risk position, risk appetite, risk culture and risk management strategy. The BRC comprises four members.
- **The Board Audit Committee (BAC):** The purpose of the BAC is to review and monitor, among other things, the integrity of the Bank's financial statements, the effectiveness of the Bank's internal controls, internal and external audit processes and whistleblowing procedures and the Bank's relationship with external auditors. The BAC comprises four members.
- **The Board Nomination and Compensation Committee (BNCC):** The purpose of the BNCC is to consider matters relating to the composition of the Board and its committees, their performance, succession planning, remuneration policies for the Board and senior management and strategic issues relating to human resources. The BNCC comprises three members.

	BECC	BAC	BRC	BNCC
Meetings held in 2018	9	6	4	4
H.E. Essa Abdulfattah Kazim Al Mulla	Chair	Member	-	-
Dr. Mohammed Ahmed Al Zarooni	Member		Chair	-
Dr. Amina Abdulwahed Hassan Alrustamani*	-	Member	-	-
Rashid Mohamed Rashid Al Mutawa		Member	Member	
Edris Mohammad Rafi Mohammad Saeed Alrafi	Member	-	-	Member
Raed Mohammad Khalifa Kajoor AlNuaimi	Member	-	Member	Chair
Narayanan Rajagopalan Yegna	-	Chair	Member	Member

* Dr. Amina Alrustamani resigned from the Board with effect from 1 January 2019.

Internal Shari'ah Supervision Committee

The Bank has an Internal Shari'ah Supervision Committee (ISSC) comprising three members appointed by the shareholders. The ISSC's responsibilities include amongst others; directing, reviewing and supervising the products, activities and services of the Bank in order to ensure that they remain in compliance with Shari'ah rules and principles.

The current members* of the Internal Shari'ah Supervision Committee are:

Name	Position	Date Joined
Dr. Mohamed Ali Elgari	Chairman	11 January 2007
Dr. Mohammed Daud Bakar	Member	11 January 2007

*Member selection and nomination in progress for the third position.

*The committee met four times in 2018

Management Committees

The Board has established management level committees comprising members of senior management that meet regularly for effective oversight of governance, risk and compliance, day-to-day operations and execution of the Bank's strategy. The Terms of Reference for the management committees are endorsed by the Board. The four management committees established are as follows and interact closely with one another to support a collaborative and integrated approach to information sharing and decision making:

- **Management Committee (Mancom):** This committee is responsible for overseeing the Bank's operations and strategic initiatives against targets and objectives set by the Board. It is chaired by the Chief Executive Officer and meets monthly.
- **Enterprise Risk Management Committee (ERMC):** This committee is responsible for oversight of the execution of the Bank's risk strategy and embedding a risk intelligent culture throughout the Bank. This committee is chaired by the Chief Risk Officer and meets monthly.
- **Management Credit Committee (MCC):** This committee is responsible for the review of credit risks. This committee is chaired by the Chief Credit Officer and meets atleast biweekly.
- **Asset and Liability Committee (ALCO):** This committee is responsible for the management of the Bank's liquidity, capital adequacy and structural foreign exchange and interest rate risks. This committee is chaired by the Treasurer and meets monthly.

Risk Management

The role of risk management is to understand, measure and manage risk in all aspects of the Bank's business. The Bank's strategy is to embed a risk management culture in all of its business processes and to ensure that this culture is adopted throughout the organisation. Accordingly, the Bank seeks to continually improve its risk management in line with industry standards and Central Bank guidelines and by investing in the right people and systems.

In line with this, the Bank's risk management framework is focused on fully integrating enterprise-wide risk management into its operations and culture. The risk management structure covers credit risk, market risk, liquidity risk, legal risk, operational risk, compliance and remedial management.

The Bank seeks to ensure that risks are proactively identified and managed. It aims to achieve an appropriate balance between risk and return and to minimise potential adverse effects on its financial performance.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Bank's risk management policies and systems are reviewed regularly to reflect changes in market conditions, emerging best practices and the products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The BRC, ERMC, ALCO and the MCC are responsible for the effective governance of risk in the Bank.

Financial Disclosures

The Bank periodically communicates financial information to its stakeholders through various mechanisms. These include:

- Annual General Meeting of shareholders held in the first quarter of the financial year, where governance matters and financials are discussed and approved.
- Audited annual financial statements and half-yearly financial statements made available on the Bank's website.
- Investor presentations prepared on a half-yearly basis and Full Rating reports by our rating agency posted on the Bank's website.

External Auditors

The Board Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment, remuneration and removal of external auditors and is responsible for assessing the independence and the objectivitiy of the external auditors. The BAC also carries out a review of all non-audit services provided by the external auditors to ensure external auditor independence.

Every year, the shareholders appoint the external auditors at the Annual General Meeting for that year. PricewaterhouseCoopers were appointed as the auditors at the 2018 Annual General Meeting.

Chairman's Message

Dear Shareholders,

On behalf of the Board of Directors of Noor Bank, I am pleased to share with you the 2018 Annual Report that highlights the Bank's business developments and achievements during the year.

2018 was an important year for Noor Bank as we celebrated our 10th anniversary, a key milestone for the Bank. In the past 12 months, we have seen strong momentum in delivering our three-year transformation strategy, which we commenced with a new vision, mission, purpose and values. This journey will enable Noor Bank to broaden horizons, develop sustainably and build a distinctive identity.

UAE economy and the banking sector

The UAE economy has maintained its resilience and ability to adapt to the various variables, thanks to its fast-growing and diverse economic sectors supported by the vision of the UAE leadership and robust legislation. In this context, despite unfavorable global and regional conditions, the International Monetary Fund estimated that the national economy will grow by about 2.9% in 2018, one of the highest growth rates among countries in the region.

This expected growth is a direct result of constructive steps taken at the federal and local levels to strengthen the economy by increasing public spending, investment, ongoing financial and structural reforms, and efforts to increase private sector activity through the introduction of new laws to encourage foreign investment, which have had a great impact on maintaining economic prosperity.

The banking sector has played a pivotal role in supporting all these initiatives in 2018.

Our Performance

By directing our efforts to sustainable growth and effective risk management, we succeeded in achieving a very strong profit of AED 601 million, an increase of 62% over 2017. The Bank also recorded strong balance sheet growth with customer assets and deposits increasing by 17%, compared to 2017. Our strategic focus on lowering operating expenses through the optimal utilisation of capital and resources has contributed to stronger returns.

Outlook for 2019

The outlook for the UAE economy in 2019 remains positive with relatively stable oil prices, an increase in planned government spending improved liquidity, better asset yield due to rising profit rates, and the ongoing recovery in financing quality, suggest improved profitability for the UAE banking sector.

The unique position of the nation's economy and banking sector - without a doubt - gives us exceptional flexibility in dealing with ongoing global challenges, such as the persistence of global trade tensions, potential fluctuations in oil prices, tight monetary policies, and the potential for a slowdown in global GDP growth.

Gratitude and appreciation

On behalf of the Board of Directors, I would like to extend my appreciation to Noor Bank's senior management and the employees for their dedication and hard work to achieve our strategic objectives.

I would like to also take this opportunity to express my deep pride in what we have achieved so far.

I am grateful to our shareholders for their confidence in the Board to continue creating value, now and in the future and to our valued customers to support them in achieving their financial goals.

There is no doubt that your support on our journey of transformation will see Noor Bank emerge to be recognised as the world's best contemporary Shari'ah-compliant bank.

His Highness Sheikh Ahmed bin Mohammed bin Rashid Al Maktoum
Chairman

CEO's Message

Dear Shareholders,

I am pleased to present our financial results for 2018, the first year of our three-year strategic transformation that was approved by our Board in the fourth quarter of 2017.

As we build on the considerable progress made in 2018, we recognise the next two years are important for Noor Bank, and we are committed to achieving our goals.

Strategic Actions

In 2018, as part of our focus to become customer-centric, we launched three key initiatives: improving the customer experience, enhancing our digital capabilities and diversifying into new business streams. We have made solid progress on all these fronts.

Our ambition is to deliver outstanding customer experiences. We mapped several customer journeys - from discovering and researching a product, buying it, actually using the product and the follow up provided by the Bank - in order to better understand their perspectives. We have seen early positive signs on the back of changes introduced to make our products and services more relevant and easier to use.

We also invested heavily in our technology infrastructure to offer simple, reliable and flexible digital solutions as demonstrated by the launch of the Noor Bank Mobile App in May 2018, which has already registered over 37,000 new customers in the first six months. Further, the Bank partnered with several tech-giants to increase operational efficiency and enhance customer experience.

From a business standpoint, a key focus area is to grow the affluent segment for the bank. We are well-positioned to provide a comprehensive product offering to meet the banking and wealth management needs of our high-net-worth customers.

We have also made progress in diversifying our corporate portfolio by targeting new growth areas, building on our treasury and investment banking capabilities and reducing concentration in specific sectors.

Our focus remains on maintaining financial strength and flexibility to build a robust business. The success of Noor Bank's USD 500 million sukuk in April 2018, which was oversubscribed 2.1 times and received interest from across the globe, demonstrates the confidence investors have placed in our future growth strategy and is a testament to the recognition and strength of our brand.

Financial Performance

Against a challenging backdrop, we registered a profit of AED 601 million in 2018, up 62% on 2017. Customer assets and deposits also grew 17%, supporting balance sheet expansion during the year and helping grow total assets to over AED 50 billion.

Costs were well managed to be lower than 2017, which led to an improvement in the cost-to-income ratio at 36%. Overall, 2018 was a strong year, supported by double-digit growth in corporate and FI segments, wealth management, consumer cards and liability products.

Noor Bank's prudent risk management function also improved its credit quality, driven by a low NPF ratio of 4.4% and a relatively higher coverage ratio of 151.7%.

Additionally, Fitch upgraded Noor Bank's standalone viability rating from b+ to bb- while maintaining our long-term IDR at A-. The change in rating clearly demonstrates our ability to execute our strategy effectively and meet targets even under challenging market conditions.

Commitment to Excellence

Empowering, enabling and engaging our people is a key strategic priority and this forms an important part of our ongoing efforts to enhance efficiency while highlighting our excellence across both customer-facing and back-office operations. We continue to build a corporate culture of learning by upskilling our staff with the right tools to stay ahead in a rapidly transforming banking landscape.

Furthermore, we established a thought-leadership platform that brought together industry experts, policymakers and other stakeholders to deliberate on the challenges, opportunities and key issues across different business spectrums with a view of finding actionable solutions.

The overarching thread that underpins our values and priorities is our purpose – to make a difference for the better. We are committed to adopting sustainability and strong governance practices that positively impact our stakeholders – be it colleagues, customers, investors or the wider community. By promoting a culture of transparency and accountability, we aim to create shared value.

We actively engage with the local community through donations, staff volunteering, and championing causes that include helping people of determination.

2019 Outlook

We are cautiously optimistic in terms of our 2019 plans as we look to take advantage of opportunities that emerge from a stable UAE economic outlook, while being confident that our financial strength will help us navigate through the challenges that any global and regional headwinds may pose to our business.

We firmly believe that the diligent execution of our innovation led strategy will position us as a well-diversified and progressive financial institution at the centre of the customers' ecosystem to fulfil our vision of becoming the world's best contemporary Shari'ah-compliant bank.

Acknowledgements

On behalf of Noor Bank, I extend my sincere appreciation to the visionary UAE leaders for their foresight and inspiration.

I am also grateful to the UAE Central Bank for its vital contribution to the success of the banking sector and for setting up the Higher Shari'ah Authority that seeks to establish a universal regulatory framework for all Islamic banks in the country. Finally, I thank you – the shareholders of Noor Bank – for your support and faith in the Board, management and staff.

John Iossifidis
Chief Executive Officer

Awards

AWARD FOR EXCEPTIONAL CUSTOMER SERVICE
DUBAI POLICE

BEST BENCHMARKING INDEX: OVERALL BEST BANK
ETHOS INTEGRATED SOLUTIONS SERVICE OLYMPIAN AWARDS 2017

BEST SOCIAL MEDIA CUSTOMER EXPERIENCE
ETHOS INTEGRATED SOLUTIONS SERVICE OLYMPIAN AWARDS 2017

MOST POPULAR AUTO FINANCE
SOUQALMAL PEOPLE'S CHOICE AWARD 2018

BEST INNOVATOR IN RETAIL BANKING
TAHAWULTECH.COM FUTURE ENTERPRISE AWARDS 2018

ISLAMIC AUTO FINANCE PROVIDER OF THE YEAR
YALLACOMPARE BANKING AWARDS 2018

MANDATED LEAD ARRANGERS - SYNDICATED LOAN DEAL OF THE YEAR
BONDS, LOANS & SUKUK MIDDLE EAST AWARDS

LEAD ARRANGERS -SYNDICATED LOAN BY DEBUT BORROWER DEAL OF THE YEAR
BONDS, LOANS & SUKUK MIDDLE EAST AWARDS

JOINT LEAD MANAGER & BOOKRUNNER -NICHE MARKET DEAL OF THE YEAR
BONDS, LOANS & SUKUK MIDDLE EAST AWARDS

BEST SME BANK
ISLAMIC BANKING & FINANCE AWARDS 2018

BEST SME INNOVATION
ISLAMIC BANKING & FINANCE AWARDS 2018

Financial Highlights

A Shari'ah compliant contemporary bank growing from strength to strength

AED 50.7 bn

TOTAL ASSETS

increased by 19% in 2018

AED 601.3 mn

NET PROFIT

increased by 62% in 2018

Key Ratios

- 12.0 % Return On Equity
- 1.3 % Return On Assets
- 3.0 % Net Profit Margin
- 4.4 % Impaired Financing Ratio
- 17 % Customer Financing Growth
- 17 % Customer Deposits Growth

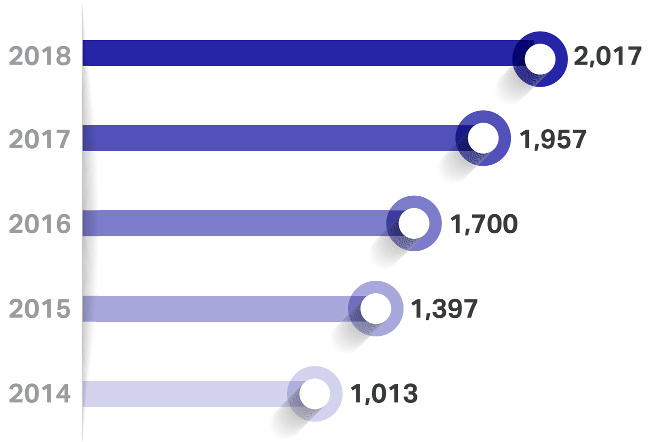
Revenue Composition

- 49 % Wholesale Banking
- 41 % Retail Banking
- 10 % Others

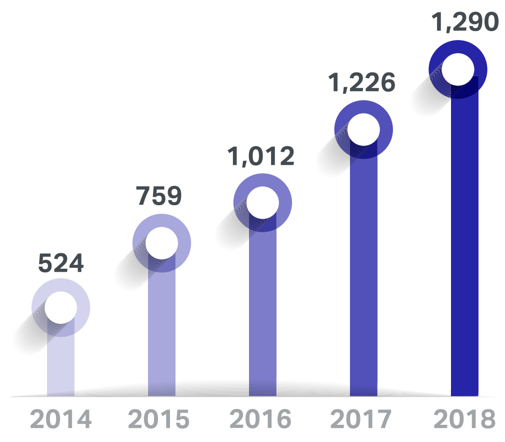
Rating	Long-Term	Short-Term	Outlook
Fitch Ratings	A-	F2	Stable

In 2018, Fitch upgraded the Bank's Viability Rating from 'b+' to 'bb-'

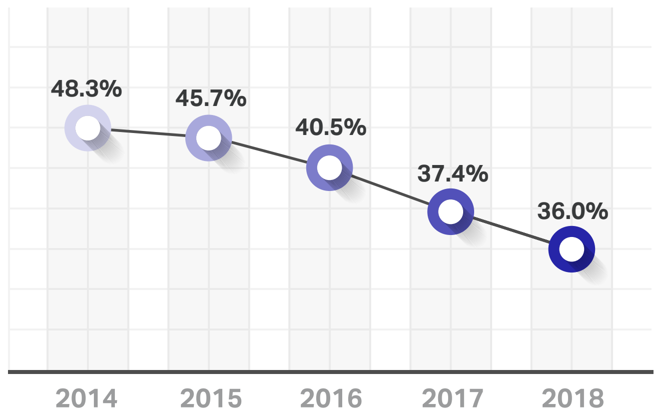
Total Revenues (AED mn)



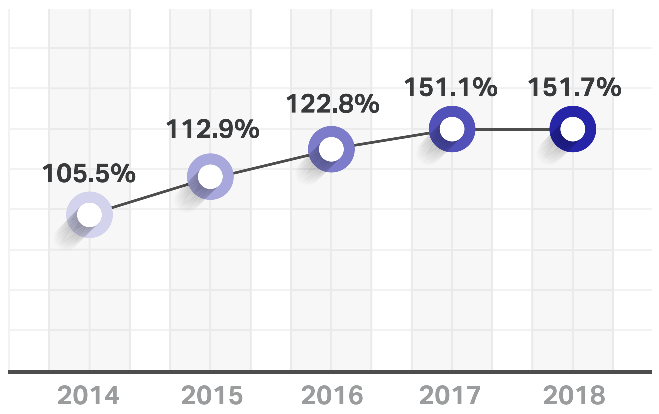
Operating Profit (AED mn)



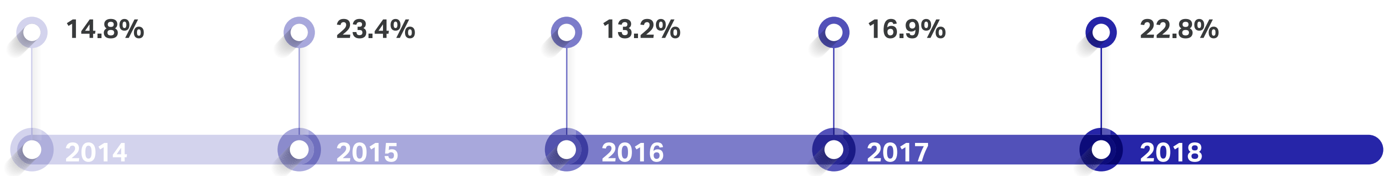
Cost to Income Ratio (%)



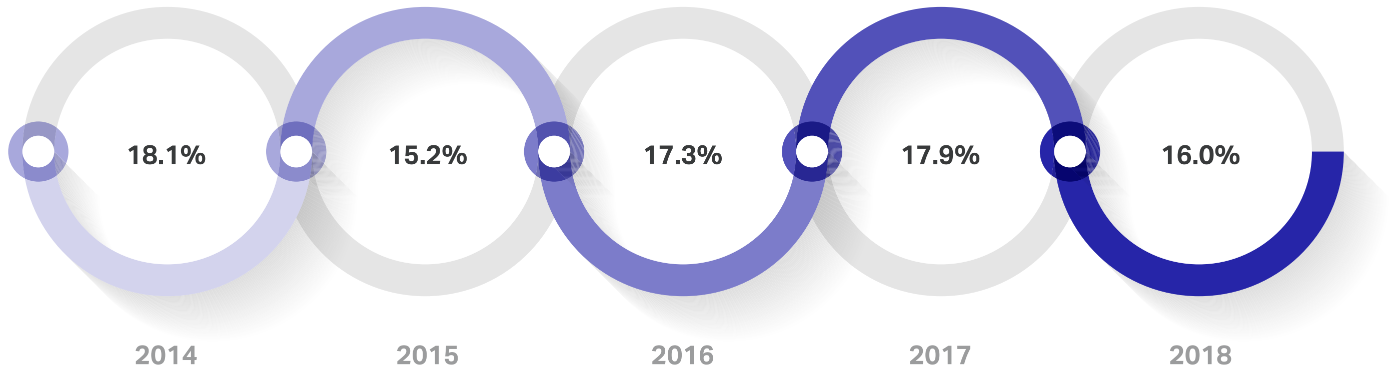
Impairment Coverage (%)



Eligible Liquid Assets Ratio (%)



Capital Adequacy Ratio (%)



Board of Directors' Report

Noor Bank PJSC

Directors' report for the year ended 31 December 2018

The Board of Directors are pleased to submit their report on the activities of Noor Bank PJSC ("the Bank") and it's fully owned special purpose entities (SPE) (referred together as "the Group") along with the audited consolidated financial statements for the year ended 31 December 2018.

Principal activities

The principal activities of the Group are carrying out banking, financing and investing activities through various Islamic financing instruments such as Ijarah, Murabahah, Wakalah, Istisna and Sukuk. The activities of the Group are conducted in accordance with Shari'ah principles and in compliance with the provisions of the Memorandum and Articles of Association.

Results

The consolidated statement of financial position of the Group as at 31 December 2018, together with its consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended are set out in the accompanying consolidated financial statements.

Dividends

The Board of Directors do not propose any dividends for the year ended 31 December 2018.

Composition of the Board of Directors

The Board of Directors of the Bank comprised of the following individuals during the year ended 31 December 2018:

H.H. Sheikh Ahmed bin Mohd bin Rashed Al Maktoum (Chairman)
H.E. Essa Abdulfattah Kazim Al Mulla (Vice Chairman) [1]
Mr. Edris Mohammad Rafi Mohammad Saeed Alrafi
Dr. Mohammed Ahmed Al Zarooni
Dr. Amina Abdulwahed Hassan AlRustamani[3]
Mr. Raed Mohammed Khalifa Kajoor Al Nuaimi
Mr. Rashid Mohamed Rashid Al Mutawa
Mr. Mohamed Sulaiman Abdulaziz Al Mulla[2]
Mr. Narayanan Rajagopalan Yegna

[1] Appointed Vice chairman effective 19 February 2018
[2] Appointed effective 07 January 2018
[3] Resigned effective 01 January 2019

Auditors

As stipulated in Article (3) of the Financial Reporting and External Audit Regulation 162/2018 issued by Central Bank of the UAE, requiring rotation of External Audit firms at least every 6 years, the Bank will seek approval for appointment of its new External Auditor at the Annual General Meeting (AGM).

Signed on behalf of the Board of Directors on 12 February 2019.

Director

Director

Auditor's Report

Independent auditor's report to the shareholders of Noor Bank PJSC

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Noor Bank PJSC (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matters	• Measurement of expected credit losses under IFRS 9 • Fair valuation of the Group's investment properties

PricewaterhouseCoopers (Dubai Branch), License no. 102451
Emaar Square, Building 4, Level 8, P O Box 11987, Dubai - United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me

Douglas O'Mahony, Rami Serhan, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy

Independent auditor's report to the shareholders of Noor Bank PJSC (continued)

Our audit approach (continued)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the shareholders of Noor Bank PJSC (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
Measurement of Expected Credit Losses under IFRS 9	
IFRS 9 'Financial instruments' became effective from 1 January 2018 and replaced most of the guidance in IAS 39 – 'Financial instruments'. In particular, the incurred loss impairment model under IAS 39 has been replaced with the Expected Credit Losses model ("ECL"). The Group has adopted IFRS 9 with effect from 1 January 2018. The adoption of IFRS 9 has resulted in a net decrease in equity by AED 273 million which has been recognized as an adjustment to opening retained earnings and fair value reserve on Islamic Sukuk measured at fair value through other comprehensive income at 1 January 2018. On the initial application of IFRS 9, management has evaluated and considered the disclosures required by IFRS 7 and IFRS 9. The Group applies ECL on all its financial instruments measured at amortized cost, Investments in Islamic Sukuk measured at fair value through other comprehensive income and financial commitments and financial guarantee contracts. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria. For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral. The Group's impairment policy under IFRS 9 is presented in Note 3.2.3 to the consolidated financial statements.	We performed the following audit procedures on the computation of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2018: ➢ We tested the completeness and accuracy of the data used in the calculation of ECL. ➢ For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria. ➢ We involved our internal specialists to assess the following areas: • Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9. • ECL modelling methodology and calculations used to compute the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for the Group's classes of financial instruments. • Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk. • For a sample of exposures, our internal specialists checked the appropriateness of determining EAD, including the consideration of repayments and collaterals. ➢ In addition, for the Stage 3 corporate credit portfolio, the appropriateness of provisioning assumptions were independently assessed for a sample of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognised, based on the detailed financing and counterparty information available in the credit files. For the Stage 3 retail credit portfolio, assumptions were independently assessed for each product category and an independent view was formed on the levels of provisions recognised at each category level.

Independent auditor's report to the shareholders of Noor Bank PJSC (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
Measurement of Expected Credit Losses under IFRS 9 *(continued)*	
Measurement of ECL is considered as a key audit matter as the Group applies significant judgments and makes a number of assumptions in the staging criteria applied to the financial instruments as well as in developing ECL models for calculating its impairment provisions.	➢ We assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9.

Independent auditor's report to the shareholders of Noor Bank PJSC (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
Fair valuation of Group's investment properties The Group's investment properties held at fair value amount to AED 1,128 million as at 31 December 2018, as set out in note 8.	➢ We evaluated the competence, capabilities and objectivity of professional third party valuation firms (the "experts") engaged for valuing the investment properties as at 31 December 2018.
The valuation of the Group's investment properties are inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income or selling value for that particular property.	➢ We evaluated the appropriateness of the experts' work by considering the nature and content of the instructions provided to the experts by the Group. Where the experts' work involved valuation techniques which needed significant use of source data provided by the Group's management, the relevance, completeness and accuracy of that source data was evaluated.
The valuations were carried out by professional third party valuation companies. The valuers were engaged by the Group, and performed their work in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS").	➢ The relevance and reasonableness of the expert's findings or conclusions for certain investment properties was considered by engaging our own in-house valuation experts to assess and evaluate the work performed and assumptions used by the third party valuation firm.
In determining a property's valuation, the valuers take into account current market prices for similar properties in a similar location and condition. If such conditions are not present, the valuers make an allowance for differences from the comparable properties and adjust their assessment of the valuation accordingly. If prices for comparable properties are not available, the valuers make use of an appropriate valuation technique to arrive at the fair valuation.	
The valuation of investment properties is considered a key audit matter due to the significant judgement required in determining the assumptions to be used to estimate the fair valuation for investment properties.	

Other information

The directors are responsible for the other information. The other information comprises the Directors' report, (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report, and the Internal Shari'ah Supervision Committee report and the Annual Report, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report and Internal Shari'ah Supervision Committee report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

pwc

Independent auditor's report to the shareholders of Noor Bank PJSC (continued)

Report on other legal and regulatory requirements

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

i) we have obtained all the information we considered necessary for the purposes of our audit;

ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

iii) the Group has maintained proper books of account;

iv) the financial information included in the Directors' report is consistent with the books of account of the Group;

v) as disclosed in note 9 to the consolidated financial statements the Group has purchased shares during the financial year ended 31 December 2018;

vi) note 27 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

vii) Based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018; and

viii) Note 14 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2018.

Further, as required by Article (114) of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers
12 February 2019

Douglas O'Mahony
Registered Auditor Number 834
Place: Dubai, United Arab Emirates

Consolidated Financial Statements

Noor Bank PJSC

Consolidated statement of financial position
As at 31 December 2018

	Note	2018 AED'000	2017 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	4	6,876,797	4,577,677
Due from banks	5	2,958,365	4,880,190
Investments in Islamic financing instruments	6	31,998,616	27,449,688
Investments in Islamic sukuk	7	7,114,349	3,726,988
Investment properties	8	1,127,563	1,178,947
Other assets	9	453,526	681,821
Property and equipment	10	189,982	173,227
Total assets		50,719,198	42,668,538
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	11	35,357,729	30,329,118
Due to banks	12	2,751,947	1,908,507
Sukuk financing instruments	13	3,673,150	1,836,450
Other liabilities	14	2,925,545	2,744,205
Total liabilities		44,708,371	36,818,280
EQUITY			
Share capital	15	3,574,895	3,574,895
Tier 1 sukuk	16	1,836,500	1,836,500
Statutory reserve	17	346,914	286,779
Revaluation surplus on land and buildings	10	116,001	118,884
Fair value reserve on Islamic Sukuk at FVOCI		(40,096)	(7,250)
Retained earnings		176,613	40,450
Total equity		6,010,827	5,850,258
Total equity and liabilities		50,719,198	42,668,538

These consolidated financial statements were approved by the Board of Directors on 12 February 2019 and signed on its behalf by:

.... Director

.... Chief Executive Officer

.... Chief Financial Officer

The accompanying notes on pages 49 to 120 form an integral part of these consolidated financial statements

NOOR BANK
Noor gets it done

Consolidated income statement
For the year ended 31 December 2018

	Note	2018 AED'000	2017 AED'000
Operating income			
Income from Islamic financing and sukuk	18	1,950,230	1,541,084
Depositors' and sukuk holders' share of profit	19	(709,242)	(389,032)
Net income from Islamic financing		1,240,988	1,152,052
Fee and other income, net of charges	20	694,094	747,235
Gain on investments in Islamic financing and sukuk	21	81,513	58,141
Total operating income		2,016,595	1,957,428
Operating expenses			
Staff costs	22	(515,611)	(532,224)
General and administrative expenses	23	(183,193)	(168,604)
Depreciation	10	(27,783)	(30,862)
Total operating expenses		(726,587)	(731,690)
Operating profit before impairment charges		1,290,008	1,225,738
Impairment charge on financial assets, net	25	(613,880)	(838,024)
Change in fair value of investment properties, net	8	(74,784)	(9,825)
Impairment loss on equity investments		-	(7,000)
Profit for the year		601,344	370,889

The accompanying notes on pages 49 to 120 form an integral part of these consolidated financial statements

NOOR BANK
Noor gets it done

Consolidated statement of comprehensive income
For the year ended 31 December 2018

	Note	2018 AED'000	2017 AED'000
Profit for the year		601,344	370,889
Other comprehensive income			
Items that may be subsequently transferred to income statement			
Fair value reserve on available-for-sale Islamic sukuk/Islamic sukuk at FVOCI			
- Net changes in fair value	7	(38,307)	57,703
- Net realised gain transferred to income statement	21	(14,288)	(30,499)
Total other comprehensive (loss) / income		(52,595)	27,204
Total comprehensive income for the year		548,749	398,093

The accompanying notes on pages 49 to 120 form an integral part of these consolidated financial statements

NOOR BANK
Noor gets it done

Consolidated statement of changes in equity
For the year ended 31 December 2018

	Share capital AED'000	Tier 1 sukuk AED'000	Statutory reserve AED'000	Revaluation surplus on land and buildings AED'000	Fair value reserve on available- for-sale Islamic Sukuk / Islamic Sukuk at FVOCI AED'000	Retained earnings / (accumulated losses) AED'000	Total AED'000
At 1 January 2017	3,357,895	1,836,500	249,690	121,767	(34,454)	(181,459)	5,349,939
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	370,889	370,889
Other comprehensive income for the year	-	-	-	-	27,204	-	27,204
Total comprehensive income for the year	-	-	-	-	27,204	370,889	398,093
Other equity movements							
Share capital issued (Note 15(ii))	217,000	-	-	-	-	-	217,000
Tier 1 sukuk profit distribution (Note 16)	-	-	-	-	-	(114,774)	(114,774)
Transfer to statutory reserve (Note 17)	-	-	37,089	-	-	(37,089)	-
Transfer from revaluation surplus on buildings to retained earnings	-	-	-	(2,883)	-	2,883	-
At 31 December 2017	**3,574,895**	**1,836,500**	**286,779**	**118,884**	**(7,250)**	**40,450**	**5,850,258**
At 1 January 2018	**3,574,895**	**1,836,500**	**286,779**	**118,884**	**(7,250)**	**40,450**	**5,850,258**
Cumulative effect of adoption of IFRS 9 (Note 3.1 (a)	-	-	-	-	19,749	(293,155)	(273,406)
Restated balance at 1 January 2018	**3,574,895**	**1,836,500**	**286,779**	**118,884**	**12,499**	**(252,705)**	**5,576,852**
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	601,344	601,344
Other comprehensive income for the year	-	-	-	-	(52,595)	-	(52,595)
Total comprehensive income for the year	-	-	-	-	(52,595)	601,344	548,749
Other equity movements							
Tier 1 sukuk profit distribution (Note 16)	-	-	-	-	-	(114,774)	(114,774)
Transfer to statutory reserve (Note 17)	-	-	60,134	-	-	(60,134)	-
Transfer from revaluation surplus on buildings to retained earnings	-	-	-	(2,883)	-	2,883	-
At 31 December 2018	3,574,895	1,836,500	346,914	116,001	(40,096)	176,613	6,010,827

The accompanying notes on pages 49 to 120 form an integral part of these consolidated financial statements

Consolidated statement of cash flows
for the year ended 31 December 2018

	Note	2018 AED'000	2017 AED'000
Operating activities			
Profit for the year		601,344	370,889
Adjustments for:			
Impairment charge on financial assets, net	25	613,880	838,024
Loss on equity investments		-	7,000
Depreciation of property and equipment	10	27,783	30,862
Provision for employees' end of service benefits	24	8,695	6,828
Change in fair value of investment properties, net	8	74,784	9,825
Loss on disposal of investment properties		951	1,112
Gain on investments in Islamic financing and sukuk	21	(81,513)	(58,141)
Amortisation of (discount)/premium on held-to-maturity Islamic sukuk		-	(343)
Operating cash flows before changes in operating assets and liabilities		1,245,924	1,206,056
Changes in operating assets and liabilities:			
Statutory reserve with the UAE Central Bank	4	329,669	(72,199)
Due from banks	4	(727,036)	759,625
Investments in Islamic financing instruments	6,8	(5,364,204)	(2,381,590)
Investments in Islamic sukuk at FVTPL/Held-for-trading		(168,496)	270,865
Other assets	9	253,300	(348,879)
Customer deposits	11	5,028,611	526,619
Due to banks	4	324,597	352,503
Payment of employees' end of service benefits	24	(5,933)	(12,104)
Other liabilities	14	132,856	1,700,985
Net cash generated from operating activities		1,049,288	2,001,881
Investing activities			
Investments in Islamic sukuk		(3,238,875)	144,516
Proceeds from disposal of investment properties		8,149	8,499
Purchase of equity instruments	9	(25,005)	(6,500)
Proceeds from disposal of property and equipment		807	1,001
Additions to property and equipment	10	(45,345)	(11,370)
Net cash (used in)/generated from investing activities		(3,300,269)	136,146
Financing activities			
Proceeds from share capital issued	15	-	217,000
Proceeds from Issuance of Sukuk financing instrument	13	1,836,700	-
Tier 1 sukuk profit distribution	16	(114,774)	(114,774)
Net cash generated from financing activities		1,721,926	102,226
Net (decrease)/increase in cash and cash equivalents		(529,056)	2,240,253
Cash and cash equivalents at the beginning of the year		4,067,565	1,827,312
Cash and cash equivalents at the end of the year	4	3,538,509	4,067,565

Principal non-cash transactions:
During the year, the Group settled certain investments in Islamic financing instruments by taking possession of collaterals (note 30.1(d)).

The accompanying notes on pages 49 to 120 form an integral part of these consolidated financial statements

Notes to the consolidated financial statements for the year ended 31 December 2018

1 Incorporation and principal activities

Noor Bank PJSC ("the Bank") was incorporated on 26 March 2007 as a Public Joint Stock Company under UAE Federal Law No. (8) of 1984 (as amended) and is regulated by the Central Bank of the United Arab Emirates ("UAE"). The Bank has its registered office at Emaar Square, Building No. 1, Sheikh Zayed Road, P.O. Box 8822, Dubai, UAE. The Bank was registered with the Securities and Commodities Authority ("SCA") on 26 April 2007 and commenced its operations thereafter.

UAE Federal Law No. (2) of 2015 ("Companies Law") which is applicable to the Bank came into effect from 1 July 2015. The Bank is in compliance with the provisions of the Companies Law.

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic financing instruments such as Ijarah, Murabahah, Wakalah, Istisna and Sukuk. The activities of the Bank are conducted in accordance with the Shari'ah rules and principles as applied and interpreted by the Bank's Internal Shari'ah Supervision Committee and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

The Bank has following fully owned special purpose entities ("SPE"):

Name of entity	Activity	Place of incorporation	Date of incorporation
Noor Sukuk Company Limited (Note 13)	Special purpose entity	Cayman Islands	March 2015
Noor Tier 1 Sukuk Limited (Note 16)	Special purpose entity	Cayman Islands	August 2015
Noor Structured Certificates Ltd*	Special purpose entity	Cayman Islands	July 2016
Noor Derivatives Limited**	Special purpose entity	Cayman Islands	April 2017

* An entity established to facilitate issuance of the Bank's structured Islamic certificates.

** An entity established to facilitate the Bank's Islamic derivative transactions.

The consolidated financial statements for the year ended 31 December 2018 comprise the Bank and its SPEs (together referred to as "the Group").

Noor Investment Group LLC ("NIG"), the ultimate parent company, holds 91% of the shareholding in the Bank.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

2 Basis of preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB).

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, except for the fair value measurement of following items in the consolidated statement of financial position:

- Financial assets classified as at fair value through other comprehensive income ('FVOCI') and fair value through profit and loss ('FVTPL');
- Investment properties;
- Buildings classified under property and equipment;
- Islamic derivatives and
- Sukuk financing instrument.

2.3 Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirham ("AED"), which is the functional currency of the Bank and its subsidiaries, being the currency of the primary economic environment in which the entities operate. Except as indicated, the consolidated financial statements have been rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires the management to make judgements, 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described as follows:

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria and definition of default;

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

2 Basis of preparation (continued)

2.4 Use of estimates and judgements (continued)

(a) Measurement of the Expected Credit Loss (ECL) allowance (continued)

- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

(b) Classification of financial assets

In accordance with IFRS 9 guidance, the Group classifies its financial assets based on the assessment of the business models in which the assets are held at a portfolio level and whether cash flows generated by assets constitute solely payments of principal and profit ('SPPP'). This requires significant judgement in evaluating how the Group manages its business model and on whether or not a contractual clause for the cash flows in all financial assets of a certain type breaches SPPP criteria and results in a material portfolio being recorded at fair value through profit or loss. Explanation and further details on business models and cash flow characteristics of financial assets are described in note 3.2.2.

(c) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments. Key assumptions and disclosures related to fair value of financial instruments are described in note 30.4.

(d) Fair valuation of investment properties and buildings under property and equipment

The fair valuation of investment properties and buildings under property and equipment is based on value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). In undertaking the valuation the valuation experts have made a number of assumptions and relied upon various sources of information. Management reviews the assumptions based on their reasonable knowledge and other information available about the properties. Key assumptions and disclosures related to fair value of non-financial assets are described in note 30.4.

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

2 Basis of preparation (continued)

2.5 New standards, amendments to published standards and interpretations effective for the Group's accounting period beginning on 1 January 2018

New standards and significant amendments to standards applicable to the Group	Effective date
IFRS 15, 'Revenue from contracts with customers' This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. There is no material impact on the consolidated financial statements of the Group from the adoption of IFRS 15 on 1 January 2018.	1 January 2018

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

2 Basis of preparation (continued)

2.5 New standards, amendments to published standards and interpretations effective for the Group's accounting period beginning on 1 January 2018 (continued)

IFRS 9, 'Financial instruments' IFRS 9 addresses the classification, measurement, recognition and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. In line with the IFRS 9 transition provisions, the Group has elected not to re-state comparative periods and has adjusted its retained earnings at 01 January 2018 to reflect the application of requirements under the new standard. The application of contractual cash flow characteristics and business model tests has changed the classification and measurement of certain financial assets under IFRS 9 as compared to IAS 39. The resultant changes in classification and measurement of financial assets are given in Note 3.1(a). The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than the incurred credit losses basis as is the case under IAS 39. It applies to financial assets classified at amortized cost, financial assets measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, financing commitments and certain financial guarantee contracts. The new standard has also introduced expanded disclosure requirements which has changed the nature and extent of the Group's disclosures about its financial assets. The impact on the consolidated financial statements of the Group from the adoption of above new standard is disclosed in note 3.1.	1 January 2018

There are no other applicable IFRS or IFRIC interpretations that were effective for the first time for the accounting period beginning on 1 January 2018 that had a material impact on the consolidated financial statements of the Group.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

2 Basis of preparation (continued)

2.6 New standards and amendments to published standards and interpretations issued but not yet effective for the Group's accounting period beginning 1 January 2018 and not early adopted by the Group

New standards and significant amendments to standards applicable to the Group	Effective date
Amendment to IFRS 9, 'Financial instruments' The narrow-scope amendments made to IFRS 9 'Financial instruments' in December 2017 enable the entities to measure certain pre-payable financial assets with negative compensation at amortized cost. These assets which include investments in Islamic financing instruments and Islamic sukuk would otherwise have been measured at fair value through profit or loss. To qualify for amortized cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model. There is unlikely to be any material impact on the consolidated financial statements of the Group from the adoption of above amendment on 1 January 2019.	1 January 2019
IFRS 16, 'Leases' This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. There is unlikely to be any material impact on the consolidated financial statements of the Group from the adoption of above new standard on 1 January 2019.	1 January 2019

There are no other relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2018 that would be expected to have a material impact on the consolidated financial statements of the Group.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies

3.1 Changes in accounting policies

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

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and fair value reserve on Islamic sukuk at FVOCI of the current period.

The consequential amendments to IFRS 7 disclosures have also been applied to the current period only. The comparative period disclosures are in line with those made in the prior period.

The adoption of IFRS 9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

The Group has also adopted the hedge accounting requirements of IFRS 9. The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedging relationships might be eligible for hedge accounting, as the standard introduces a more principle based approach. The Group did not have any qualifying hedging relationships as on 1 January 2018.

Disclosures relating to the impact of the adoption of IFRS 9 on the Group are set out in note 3.1(a) below. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 3.2.

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.1 Changes in accounting policies (continued)

(a) Classification and measurement of assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018:

Assets	Previous measurement category under IAS 39	New measurement category under IFRS 9	Carrying amount under IAS 39 AED'000	Reclassifications AED'000	Remeasure-ments of impairment and other movements AED'000	Carrying amount under IFRS 9 AED'000
Cash and balances with the UAE Central Bank	Financing & receivables	Amortized cost	4,577,677	-	-	4,577,677
Due from banks	Financing & receivables	Amortized cost	4,880,190	-	(3,480)	4,876,710
Investments in Islamic financing instruments	Financing & receivables	Amortized cost	27,449,688	(59,917)	(181,470)	27,208,301
	Financing & receivables	FVTPL	-	59,917	(40,000)	19,917
Investments in Islamic sukuk	Available-for-sale	FVOCI	2,476,174	(728,241)	6,804	1,754,737
	Held-to-maturity	Amortized cost	665,269	553,707	2,338	1,221,314
	FVTPL	FVTPL	585,545	174,534	-	760,079
Investment properties	Non-financial assets	Non-financial assets	1,178,947	-	-	1,178,947
Other assets	Financing & receivables	Amortized cost	611,092	-	-	611,092
	FVTPL	FVTPL	36,218	28,030	-	64,248
	Available-for-sale	FVOCI	28,030	(28,030)	-	-
	Non-financial assets	Non-financial assets	6,481	-	-	6,481
Property and equipment	Non-financial assets	Non-financial assets	173,227	-	-	173,227
			42,668,538	**-**	**(215,808)**	**42,452,730**
Liabilities:						
Customer deposits	Amortized cost	Amortized cost	30,329,118	-	-	30,329,118
Due to banks	Amortized cost	Amortized cost	1,908,507	-	-	1,908,507
Sukuk financing instruments	Amortized cost	Amortized cost	1,836,450	-	-	1,836,450
Other liabilities	Amortized cost	Amortized cost	2,733,649	-	57,598	2,791,247
	FVTPL	FVTPL	10,556	-	-	10,556
			36,818,280	**-**	**57,598**	**36,875,878**

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.1 Changes in accounting policies (continued)

(a) Classification and measurement of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018: (continued)

The following notes explain how applying the new requirements of IFRS 9 led to changes in measurement category of certain financial assets held by the Group as shown in the table above:

a. Due to cash flow characteristics not representing SPPP (note 3.2.2) in accordance with IFRS 9, investments in Islamic financing instruments of AED 59.9 million have been transferred from amortized cost category to FVTPL and AED 40 million has been recognized as a fair value loss on re-measurement.

b. After assessing its business models in accordance with IFRS 9, investments in Islamic sukuk of AED 301.6 million have been transferred from held-to-maturity category to FVOCI. Fair value gain of AED 14.6 million has been recognised directly in the fair value reserve on Islamic sukuk at FVOCI.

c. After assessing its business models in accordance with IFRS 9, investments in Islamic sukuk of AED 855.2 million have been transferred from available-for-sale category to amortized cost. Fair value loss of AED 4.5 million has been reclassified from fair value reserve on Islamic sukuk to investments in Islamic sukuk at amortized cost.

d. Due to cash flow characteristics not representing SPPP in accordance with IFRS 9, investments in Islamic sukuk of AED 174.5 million have been transferred from FVOCI category to FVTPL and fair value loss of AED 0.6 million has been reclassified from fair value reserve on Islamic sukuk at FVOCI to retained earnings.

e. Due to new classification requirements for financial assets under IFRS 9, AED 28 million of equity investments carried at cost have been transferred from available-for-sale category to FVTPL in other assets.

(b) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9 at 1 January 2018

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 1 January 2018:

Financial assets	Impairment loss allowance under IAS 39 AED'000	Remeasure - ment of impairment AED'000	Impairment loss allowance (ECL) under IFRS 9 AED'000
Due from banks	-	3,480	3,480
Investments in Islamic financing instruments – At amortized cost	1,926,999	181,470	2,108,469
Investments in Islamic sukuk – At amortized cost	-	2,199	2,199
Investments in Islamic sukuk – At FVOCI	-	7,851	7,851
	1,926,999	195,000	2,121,999
Liabilities			
Other liabilities:			
Provision on off-balance sheet items	-	57,598	57,598
Total	1,926,999	252,598	2,179,597

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities

3.2.1 Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fee and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in Islamic sukuk measured at FVOCI, which results in accounting loss being recognized in profit or loss when an asset is newly originated.

(a) Measurement methods

Amortized cost and effective profit rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective profit rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i-e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective profit rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective profit rate. Any changes are recognized in profit or loss.

(b) Profit Income

Profit income is calculated by applying the effective profit rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which profit income is calculated by applying the effective profit rate to their amortized cost (i.e. net of the expected credit loss provision).

3.2.2 Classification and subsequent measurement

(a) Financial assets

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI);
- Amortized cost.

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification and subsequent measurement (continued)

(a) Financial assets (continued)

The classification requirement for financial assets and equity instruments are described below.

Financial assets are those instruments that meet the definition of a financial liability from the issuer's perspective, such as investments in Islamic financing instruments and investments in Islamic sukuk.

Classification and subsequent measurement of financial assets depend on:

(i) The Group's business model for managing the assets; and
(ii) The cash flow characteristics of the asset.

Business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPP: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent solely payments of principal and profit (the 'SPPP test'). In making this assessment, the Group considers whether contractual cash flows are consistent with a basic financing arrangement i.e. profit includes only consideration for the time value of money, credit risk, other basic financing risks and a profit margin that is consistent with basic financing arrangements. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic financing arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Based on these factors, the Group classifies its financial assets into one of the following three measurement categories:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit ('SPPP'), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 30.1. Profit income from these financial assets is included in 'Income from Islamic financing and sukuk' using the effective profit rate method.

- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and profit, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movement in carrying amount are taken through OCI, except for the recognition of impairment gains and losses, profit income and foreign exchange gains and losses on the instruments' amortized cost which

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification and subsequent measurement (continued)

(a) Financial assets (continued)

- **Fair value through other comprehensive income (FVOCI) :** (continued) are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Gain/(loss) on investments in Islamic sukuk'. Profit income from these financial assets is included in 'Income from Islamic financing and sukuk' using the effective profit rate method.

- **Fair value through profit or loss (FVTPL):** Assets that do not meet the criteria for amortized cost or investment in Islamic sukuk at FVOCI are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Gain/(loss) on investments in Islamic sukuk' in the period in which it arise, unless it arises from financial assets that were designated at fair value or which are not held for trading, in which case they are presented separately in the consolidated income statement. Profit income from these financial assets is included in 'Income from Islamic financing and sukuk' using the effective profit rate method.

The Group reclassifies financial assets when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

(b) Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include common equity and Tier 1 sukuk.

The Group measures all equity investments at fair value through profit or loss. Gains and losses on equity investments at FVTPL are included in the consolidated income statement.

(c) Financial liabilities

In both the current and prior period, financial liabilities are classified as subsequently measured at amortized cost, except for:

- **Financial Liabilities at fair value through profit or loss:** this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the 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 and losses attributable to change in the credit risk of the liability are also presented in profit or loss.

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.3 Impairment of financial assets

The Bank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial assets that are not measured at FVTPL:

- Financial assets that are financing instruments and investments in Islamic sukuk; and
- Islamic financing commitments.

Financial assets migrate through three stages based on the change in credit risk since initial recognition.

No impairment loss is recognised on equity investments.

(a) Expected credit loss impairment model

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

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

- Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.

- Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

(b) Measurement of ECL

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

These parameters are generally derived from internally developed statistical models and other historical data and are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

- The probability of default (PD) is an estimate of the likelihood of default over a given time horizon;
- The exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date; and
- The loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.3 Impairment of financial assets (continued)

(c) Macroeconomic factors, forward looking information and multiple scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Macroeconomic factors like GDP growth, oil prices, etc. and forward looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

(d) Assessment of significant increase in credit risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial assets at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant and at the segment level for retail exposures.

(e) Experienced credit judgement

The Bank's ECL allowance methodology requires the use of experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods. When measuring ECL, the Bank considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options.

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

(f) Expected life

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

The expected life of revolving Islamic financing facilities are considered to be one year for the purpose of measuring expected credit loss.

(g) Definition of default

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

- It is established that due to financial or non-financial reasons the customer is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realizing security (if any is held); or
- The customer is past due 90 days or more on any material credit obligation to the Bank.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.2.4 Derecognition

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownerships, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

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

3.2.5 Islamic financing commitments and financial guarantees

For Islamic financing commitments and financial guarantees provided by the Group the loss allowance is recognized as a provision and reported separately in other liabilities.

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

3.3 Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which the control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealized gains on transactions between group entities are eliminated. Unrealized losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Group. They are shown separately in the consolidated statements of financial position, comprehensive income and changes in equity. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary.

The acquisition method of accounting is used to account for business combinations entered into by the Group. The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

(a) Subsidiaries (continued)

On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill.

Business combinations involving entities under common control are excluded from the scope of IFRS 3, Business Combinations and, accordingly, the directors of the Company are responsible for determining a suitable accounting policy for such business combinations. The directors have elected to use the uniting of interest method to account for business combinations involving entities under common control and to account for such business combinations prospectively, under the predecessor basis of accounting. Under the uniting of interest method, there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill arises on consolidation. The difference between the cost of the acquisition and the Group's share of the issued and paid up share capital of the acquired entity is recognized as a merger reserve in equity.

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognized. Amounts previously recognized in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings.

Any retained equity interest in the entity is re-measured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognized in profit or loss.

(b) Transactions with the non-controlling interest holders

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

(c) Associates (continued)

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated income statement.

(d) Joint arrangements

Under IFRS 11 'Joint Arrangements', investments in joint arrangements are classified as either joint operations or joint arrangements. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group only has one investment in joint venture.

Investment in joint venture is accounted for using the equity method (note 3.3(c)) after initially being recognised at cost in the consolidated statement of financial position.

3.4 Foreign currency translation

Foreign currency transactions are translated into the functional currency (UAE Dirham) using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, as part of 'net foreign exchange income' under "fee and other income, net of charges".

3.5 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand, balances held with the UAE Central Bank, deposits and balance due from banks or due to banks and placements with original maturity of three months or less, excluding statutory deposits required to be maintained with the UAE Central Bank.

3.6 Due from banks

Amounts due from banks are initially recognised at fair value and subsequently measured at amortized cost less any amounts written off and provision for impairment, if any. Impairment of amounts due from banks is assessed as outlined in the accounting policy of impairment of financial assets (Note 3.2.3).

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.7 Property and equipment

Property and equipment are stated at cost less accumulated depreciation except for buildings, which are carried at fair value based on periodic valuations by an external independent valuer, less subsequent depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Increase in the carrying amount arising on revaluation of buildings is recognised in the consolidated statement of other comprehensive income under 'Revaluation surplus on buildings'. Increases that offset previous decreases of the same asset are recognised in the consolidated income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in the consolidated statement of other comprehensive income; all other decreases are charged to the consolidated income statement.

Each year, the difference between the depreciation charge based on the revalued carrying amount of the asset and depreciation charge based on the asset's original cost or previous revalued amount is transferred from the revaluation reserve to retained earnings/accumulated losses.

Depreciation on property and equipment is calculated on the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

Years	
Buildings	25
Leasehold improvements	10
Furniture, fittings and equipment	5
Vehicles	5
Computer equipment and software	3-5

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings/accumulated losses.

Capital work-in-progress is stated at cost incurred from the date of commencement of the project to the date on which it is commissioned. When commissioned, capital work-in-progress is transferred to the appropriate category of property and equipment and depreciated in accordance with the Group's accounting policies.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.8 Investment properties

Investment properties comprise property held for rental yields and for capital appreciation. It is not held for purposes of the Group's own use as part of property and equipment. Investment property is initially recognised at cost, including transaction expenses. Subsequent to initial recognition, investment property is carried at fair value.

Fair value of the investment properties is determined on the basis of valuation undertaken periodically by an independent valuer who holds a recognised and relevant qualification and has recent experience in the location and category of the investment properties being valued. Gains and losses arising from changes in the fair value are recognised in the consolidated income statement in the period in which they arise.

If an item becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income as a revaluation surplus/loss of property and equipment under IAS 16. If a fair value gain reverses a previous revaluation loss, the gain is recognised in the consolidated income statement, to the extent of that revaluation loss. On subsequent disposal of an investment property, the revaluation surplus is transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through the consolidated income statement.

3.9 Impairment of non-financial assets

Assets that have an indefinite useful life, not subject to amortisation, are tested regularly for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

3.10 Fiduciary activities

Assets and the income arising on the Group's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these consolidated financial statements. Income earned by the Group from its fiduciary services is recognised in accordance with the accounting policy on fees and other income (Note 3.15).

3.11 Employee benefits

(a) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the consolidated income statement in the periods during which services are rendered by employees.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.11 Employee benefits (Continued)

(a) Defined contribution plan (continued)

Pension contributions are made in respect of UAE and GCC national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

(b) Defined benefit plan

The provision for defined benefit obligation for the end of service benefits due to non-UAE nationals in accordance with the UAE Labour Law is calculated annually using the projected unit credit method in accordance with IAS 19. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using profit rates on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The provision arising is disclosed as 'provision for employee's end of service benefits' in the consolidated statement of financial position under 'other liabilities'.

3.12 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3.13 Revenue recognition on Islamic financing instruments

Income from Islamic financing and sukuk is recognised in the consolidated income statement for all profit-bearing Islamic financing instruments below using the effective profit method.

The effective profit method is a method of calculating the amortized cost of a financing asset or liability and of allocating the income from Islamic financing and sukuk and depositors' share of profit. The effective profit rate is the rate that exactly discounts the estimated future cash payments (including all fees received that form an integral part of the effective profit rate) over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financing asset or liability.

3.13.1 Murabahah

(a) Definition

An agreement whereby the Group sells to a customer a physical asset, commodity, goods, or shares, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin. The settlement specified in the agreement is normally either on deferred lump sum basis or an instalment basis.

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.13 Revenue recognition on Islamic financing instruments (continued)

3.13.1 Murabahah (continued)

(b) Revenue recognition

Income on Murabahah financing is recognised on a time apportioned basis over the period of the Murabahah contract, using the effective profit method.

3.13.2 Ijarah

(a) Definition

An agreement whereby the Group (lessor) leases to a customer (lessee) a service or the usufruct of an owned or rented physical asset which either exists currently or is to be constructed in future (forward lease), for a specific period of time and against certain rental instalments. The Ijarah could end by transferring the ownership of the asset to the lessee through an independent mode at the end of the agreement.

(b) Revenue recognition

Income from Ijarah investments are recognised on a time apportioned basis over the lease term, using the effective profit method.

3.13.3 Mudarabah

(a) Definition

An agreement between the Group and its customer where one party provides the funds and is called Rab al-Mal and the other provides efforts and expertise and is called the Mudarib. The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudarabah profit. The Mudarib is responsible for all losses arising from misconduct, negligence or violation of the conditions of the agreement. In all other instances, the losses are borne by the Rab-al-Mal.

(b) Revenue recognition

Income or losses on Mudarabah investments, where the Group is the Rab-al-Mal are recognised using effective profit method if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib and the losses are recognised upon their declaration by the Mudarib

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.13 Revenue recognition on Islamic financing instruments (continued)

3.13.4 Wakalah

(a) Definition

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a fee (a lump sum of money or a percentage above the anticipated profits). Similarly, the Group also obtains money to be invested under wakalah agreement which is recognised as a liability in its consolidated financial statements.

(b) Revenue recognition

The estimated income or expenses from a Wakalah is recognised using effective profit method over the period of the investment as a liability, adjusted by the actual income or expense when received.
.

3.13.5 Istisna

(a) Definition

An agreement whereby the Group (Al-Saane') provides funds to a customer (Al-Mustasne) for the development of an asset according to pre-agreed specifications at a specific price and date.

(b) Revenue recognition

Istisna revenue and the associated profit margin (difference between the cash price of the asset sold to the customer and the Group's total Istisna cost) is recognised using effective profit method.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.14 Depositors' share of profit

Depositors' share of profit is recognised in the consolidated income statement for all profit-bearing Islamic deposits using the effective profit method.

3.15 Fees and other income

Fees and other income from banking services are recognised on an accrual basis as the service is performed, when it is probable that associated economic benefits will flow to the Group and a reliable estimate of amount can be made. Fees and commission income and expense that are integral to the effective profit rate on a financial asset or liability are included in the measurement of the effective profit rate.

Other fees and commission income earned and expense incurred from the provision of services are recognised as revenue and expense, as and when the services are rendered.

Foreign exchange income on foreign exchange transactions undertaken on behalf of customers is recognised as and when these transactions are completed.

3.16 Zakat

Zakat is computed in accordance with the Bank's Internal Shari'ah Supervision Committee decisions and it is the Bank's shareholders' responsibility to pay the Zakat on their respective share and therefore it is not recorded in the consolidated financial statements of the Group.

3.17 Allocation of profit

Allocation of profits between depositors and shareholders is calculated according to the Group's standard procedures and is approved by the Bank's Internal Shari'ah Supervision Committee.

3.18 Government grants

Non-monetary grants in the form of land received from the government were recognised at fair value at the time of the grants and credited to the consolidated income statement as there is reasonable assurance that the grant will not be revoked.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.19 Repossessed properties

When the Group acquires and becomes the legal owner of a collateralised property against full and final settlement of an Islamic financing contract, the respective contract is terminated, the related outstanding balance is de-recognised and property is recognised at the carrying amount of the Islamic financing. If the fair value of the repossessed property is lower than the carrying amount of the outstanding Islamic financing balance, the balance is first impaired to the extent of the shortfall. The subsequent measurement will depend on the intended use and classification of the repossessed property as follows:

- The property is classified as “Investment property” (Note 3.8) in case of indeterminate use, or holding it for capital appreciation and/or rental yield;
- The property is classified as “Property and equipment” (Note 3.7) if the Group intends to retain the property for self-use.

The property is classified as “Non-current asset held for sale” and measured at the lower of its carrying amount and fair value less costs to sell, if sale of the property is highly probable, management is committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan is initiated.

3.20 Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

In case of buyback of own equity instruments by the Group (Treasury shares/Tier 1 sukuk), these are recognised and deducted directly in equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Bank’s own equity instruments.

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Board of Directors and Group shareholders, Dividends on ordinary shares which are approved after the reporting date are disclosed as a non-adjusting event after the reporting date.

3.21 Tier 1 Sukuk

Tier 1 sukuk are perpetual Mudarabah sukuk which are not redeemable by sukuk holders and bear an entitlement to profit distributions that is non-cumulative and at the discretion of the Bank. Accordingly Tier 1 sukuk are presented in equity as a component of equity instruments issued by the Group.

3.22 Islamic derivative financial instruments

An Islamic derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Group enters into a variety of Islamic derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and Islamic swaps.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.22 Islamic derivative financial instruments (continued)

Promises to buy or sell currencies are promises to either buy or sell a specified currency at a specified price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase or sell offers and acceptances between the counterparties. Promises to buy or sell currencies are recognised at fair value with movements taken to the consolidated income statement from the date of entering into the contract.

Islamic swaps are based on a Waa’d (promise) structure between two parties to buy a specified Shari’ah compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swaps comprise profit rate swaps and currency swaps. In case of profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase / sale of a commodity under “Murabahah Sale Agreement” in a single currency. In case of Islamic currency swaps, profit payments as well as the cost of the underlying commodity are exchanged in different currencies, by executing the purchase or sale of commodities under “Murabahah Sale Agreements”.

Islamic derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising fair value gains and losses depends on whether Islamic derivative financial instruments are held-for-trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of Islamic derivatives held-for-trading are recognised in the consolidated income statement.

Islamic derivatives embedded in hybrid contracts are separated from the host contracts and accounted for separately when the economic risk and characteristics of the embedded derivative are not closely related to those of the host contracts, a separate instrument with the same terms would meet the definition of derivative and the entire instrument is measured at fair value with changes in fair value recognised in the income statement.

3.23 Hedge accounting

The Group designates certain hedging instruments, which include derivatives and non-derivatives in respect of profit rate risk, as fair value hedge.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

3 Significant accounting policies (continued)

3.23 Hedge accounting (continued)

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the consolidated statement of profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the consolidated statement of profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for Hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to the consolidated statement of profit or loss from that date.

3.24 Operating leases

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the term of the lease.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

4 Cash and balances with the UAE Central Bank

	2018 AED'000	2017 AED'000
Cash in hand	106,864	129,397
Balances with the UAE Central Bank:		
- Current account	3,537,015	1,135,693
- Certificates of deposit	750,000	500,000
- Statutory deposits	2,482,918	2,812,587
	6,876,797	4,577,677

The statutory deposits with the UAE Central Bank are not available to finance the day to day operations of the Group, except in a crisis situation. Cash in hand, current account balances and statutory deposits with the UAE Central Bank are non-profit bearing. Certificates of deposit with the UAE Central Bank carry a profit rate of 2.2% per annum (2017: 1.2% per annum).

Cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

	2018 AED'000	2017 AED'000
Cash and balances with the UAE Central Bank	6,876,797	4,577,677
Due from banks	2,968,224	4,880,190
Due to banks	(2,751,947)	(1,908,507)
	7,093,074	7,549,360
Less: Statutory deposits with the UAE Central Bank	(2,482,918)	(2,812,587)
Less: Net due from banks having original maturity of more than 3 months	(1,071,647)	(669,208)
Cash and cash equivalents	3,538,509	4,067,565

5 Due from banks

	2018 AED'000	2017 AED'000
Current account with banks	361,543	574,092
Export bills (Murabahah)	1,873,520	1,766,270
Deposits with banks – (Wakalah & Murabahah)	733,161	2,539,828
	2,968,224	4,880,190
Less: impairment loss allowance (Note 30.1)	(9,859)	-
	2,958,365	4,880,190

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

6 Investments in Islamic financing instruments

	2018 AED'000	2017 AED'000
At amortized cost:		
Murabahah	24,792,829	21,808,761
Ijarah	9,231,937	7,508,009
Mudarabah	-	59,917
Gross investments in Islamic financing instruments	34,024,766	29,376,687
Less: allowance for impairment (Note 30.1)	(2,303,729)	(1,926,999)
	31,721,037	27,449,688
At fair value through profit or loss:		
Wakalah	254,233	-
Mudarabah	23,346	-
Total investments in Islamic financing instruments	31,998,616	27,449,688

Movement in allowance for impairment:

	2018 AED'000	2017 AED'000
At 1 January	1,926,999	1,747,392
Cumulative effect of adopting IFRS 9	181,470	-
At 1 January	2,108,469	1,747,392
Charge for the year, net of recoveries/reversals	617,845	838,024
Written off during the year, net of written off recoveries	(422,585)	(658,417)
At 31 December	2,303,729	1,926,999

Carrying value of Investments in Islamic financing instruments at amortized cost by stage:

	31 December 2018 ECL staging			
	Stage 1 AED'000	**Stage 2** AED'000	**Stage 3** AED'000	**Total** AED'000
Investments in Islamic financing instruments At amortized cost	29,442,620	3,063,339	1,518,807	34,024,766

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

6 Investments in Islamic financing instruments (continued)

The investments in Islamic financing instruments are further analysed as follows:

Economic sector risk concentration of investments in Islamic financing instruments is as follows:

	2018 AED'000	2017 AED'000
Personal	11,763,739	10,290,328
Real estate investment & hospitality	5,453,638	3,727,268
Financial institutions and investment companies	3,487,902	3,363,089
Trade	3,135,363	2,541,925
Transport, storage and communication	1,896,741	2,043,947
Manufacturing	1,003,478	1,320,914
Construction	1,278,184	947,698
Retail	1,108,707	817,661
Other services	5,174,593	4,323,857
Gross investment in Islamic financing instruments	34,302,345	29,376,687
Less: allowance for impairment (Note 30.1)	(2,303,729)	(1,926,999)
Net investment in Islamic financing instruments	31,998,616	27,449,688

7 Investments in Islamic sukuk

	2018 AED'000	2017 AED'000
At amortized cost	1,961,212	665,269
Less: impairment loss allowance (Note 30.1)	(2,158)	-
	1,959,054	665,269
At fair value through profit & loss	764,727	585,545
At fair value through other comprehensive income	4,390,568	2,476,174
	7,114,349	3,726,988

At 31 December 2018, the fair value of Islamic sukuk at amortized cost was AED 1,927 million (31 December 2017: AED 685 million). The fair value of these sukuk was determined using Level 1 fair value inputs.

During the year ended 31 December 2018, the Group recognised a net fair value loss on investments in Islamic sukuk at FVOCI of AED 38.3 million (31 December 2017: net fair value gain AED 57.7 million) in other comprehensive income under "Fair value reserve on Islamic Sukuk at FVOCI".

At 31 December 2018, Islamic sukuk with a market value of AED 1,651 million (31 December 2017: AED 745 million) have been pledged as collateral against investment deposits of AED 1,466 million from financial institutions (31 December 2017: AED 650 million) (Note 12).

At 31 December 2018, the Group held Islamic sukuk with a market value of AED 2.4 billion (31 December 2017: AED 2.1 billion) in a fiduciary capacity on behalf of customers' without recourse to itself. Accordingly, these Islamic sukuk are not included in the Group's consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

8 Investment properties

	2018 AED'000	2017 AED'000
At 1 January	1,178,947	1,186,117
Additions during the year	32,500	12,266
Disposals during the year	(9,100)	(9,611)
Change in fair value of investment properties, net	(74,784)	(9,825)
At 31 December	1,127,563	1,178,947

The carrying value of investment properties represents their fair value as determined periodically by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). The basis for determination of fair value are the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

9 Other assets

	2018 AED'000	2017 AED'000
Due from related parties (Note 27)	55,707	400,713
Accrued income on investments in Islamic financing and sukuk	292,333	194,331
Islamic derivatives (Note 14 (iii))	11,135	36,218
Equity investments in related companies (Note (i) below)	26,530	26,530
Prepayments and advances	20,137	13,197
Investment in Associate (Note (i) below)	1,500	1,500
Investment in Joint Venture (Note (ii) below)	25,005	-
Fee and other income receivable	734	2,324
Others	20,445	7,008
	453,526	681,821

(i) Equity investments in related companies held as financial assets classified as FVTPL and investment in associate at 31 December 2018 (31 December 2017: available-for-sale financial assets and investment in associate), represent the Bank's share of its investment in the following entities. No further equity shares in these entities were purchased during the year ended 31 December 2018. (31 December 2017: AED 6.5 million).

	Shareholding structure	
	Noor Bank PJSC	Noor Investment Group LLC
Noor Takaful Family P.J.S.C.	10%	90%
Noor Takaful General P.J.S.C.	10%	90%
Premium Marketing LLC	10%	90%
Noor BPO LLC	30%	70%

(ii) Noor Bank PJSC has entered into a joint venture with Emirates Telecommunication Group Company PJSC (Etisalat) to incorporate Digital Financial Services LLC wherein the Bank has invested in equity shares of AED 25 million (250,050 shares at par value of AED 100 each). This venture will offer digital wallet solutions and will be operational in 2019.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

10 Property and equipment

	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computer and office equipment AED'000	Capital work-in-progress AED'000	Total AED'000
Cost / fair value						
At 1 January 2018	172,820	18,929	1,415	232,892	9,678	435,734
Additions during the year	-	-	-	16,301	29,044	45,345
Transfers during the year	-	-	-	-	-	-
Disposals during the year	-	-	-	-	-	-
Write off & Reversals	-	-	-	(807)	-	(807)
At 31 December 2018	172,820	18,929	1,415	248,386	38,722	480,272
Accumulated depreciation						
At 1 January 2018	47,883	16,437	774	197,413	-	262,507
Charge for the year	8,334	1,571	177	17,701	-	27,783
Disposals during the year	-	-	-	-	-	-
At 31 December 2018	56,217	18,008	951	215,114	-	290,290
Net book value						
At 31 December 2018	116,603	921	464	33,272	38,722	189,982

The fair value of the Group's buildings was determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS") as at 31 December 2016, as updated on 31 December 2017. During the years ended 31 December 2018 and 31 December 2017, no revaluation gain/loss was recognised on buildings as the amount was not considered significant. Had there been no revaluation, the carrying value of buildings would have been AED 75.6 million at 31 December 2018 (31 December 2017: AED 80.8 million).

Buildings are located at Emaar Square, Dubai, and are used as the Bank's Head Office premises.

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

10 Property and equipment (continued)

	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computer and office equipment AED'000	Capital work-in-progress AED'000	Total AED'000
Cost / fair value						
At 1 January 2017	172,820	18,929	2,361	225,309	7,101	426,520
Additions during the year	-	-	1,210	3,759	6,401	11,370
Transfers during the year	-	-	-	3,824	(3,824)	-
Disposals during the year	-	-	(2,156)	-	-	(2,156)
At 31 December 2017	172,820	18,929	1,415	232,892	9,678	435,734
Accumulated depreciation						
At 1 January 2017	39,549	14,556	1,718	176,977	-	232,800
Charge for the year	8,334	1,881	211	20,436	-	30,862
Disposals during the year	-	-	(1,155)	-	-	(1,155)
At 31 December 2017	47,883	16,437	774	197,413	-	262,507
Net book value						
At 31 December 2017	124,937	2,492	641	35,479	9,678	173,227

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

11 Customer deposits

	2018 AED'000	2017 AED'000
Current accounts (Qard-e-Hasan)	9,857,939	9,303,241
Term accounts (Wakalah, Murabahah & Mudarabah)	17,936,303	11,853,136
Savings accounts (Mudarabah)	4,580,437	4,176,547
Escrow accounts (Qard-e-Hasan & Mudarabah)	2,792,392	4,737,049
Margin accounts	190,658	259,145
	35,357,729	30,329,118

12 Due to banks

	2018 AED'000	2017 AED'000
Current accounts	88,264	296,860
Investment deposits (Wakalah & Murabahah)	2,663,683	1,611,647
	2,751,947	1,908,507

At 31 December 2018, Islamic sukuk with a market value of AED 1,651 million (31 December 2017: AED 745 million) have been pledged as collateral against investment deposits of AED 1,466 million from financial institutions (31 December 2017: AED 650 million) (Note 7).

13 Sukuk financing instruments

In April 2015, the Bank through its Shari'ah compliant financing arrangement, established a Trust Certificate Issuance Programme for USD 3 billion ("the Programme").

The terms of the Programme include notional allocation of certain identified assets ("the Co-owned Assets") to Noor Sukuk Company Limited, Cayman Islands ("the Issuer or SPE"), a special purpose entity formed for the issuance of the sukuk. In substance, these co-owned assets shall continue to remain under the control of the Bank and shall continue to be serviced by the Bank.

The analysis of the Sukuk instruments issued by the Group under the Programme is as follows:

Issuer	Expected annual profit rate	Issuance dated	Maturity date	31 December 2018 AED'000	31 December 2017 AED'000
Noor Sukuk Company Limited	2.788%	April 2015	April 2020	1,836,450	1,836,450
Noor Sukuk Company Limited*	4.471%	April 2018	April 2023	1,836,700	-
				3,673,150	1,836,450

These Sukuk were listed on NASDAQ Dubai on the date of issuance and are expected to pay the profit to the sukuk holders semi-annually.

*The Bank has acquired a profit rate swap (hedging instrument) with a notional value of AED 1.8 billion to hedge the profit rate risk on the Sukuk issued in April 2018 (hedged item).The net fair value losses as at 31 December 2018 amounting to AED 18.1 million have been included in Other Liabilities under Islamic derivatives (note 14).

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

14 Other liabilities

	2018 AED'000	2017 AED'000
Sundry customer balance (Note (i) below)	1,826,155	1,825,981
Sundry disbursements payable	183,353	273,484
Managers cheques	199,839	172,980
Accrued expenses	223,145	160,949
Accrued depositors' share of profit	208,627	79,655
Impairment loss allowance on off-balance sheet items	45,724	-
Employees' end of service benefits (Note 24)	41,310	32,164
Sundry collection accounts	18,501	20,354
Charity disbursements (Note (ii) below)	6,777	11,140
Islamic derivatives (Note (iii) below)	28,745	10,556
Switch settlements payable, net	6,186	10,470
Due to related parties (Note 26)	13,002	8,065
Deferred income from Islamic financing	6,206	5,111
Other payables	117,975	133,296
	2,925,545	2,744,205

(i) Sundry Customer Balance represents specific customer funds held in a non-profit bearing suspense account. These funds are held based on instructions from the Central Bank of the UAE

(ii) As per Shari'ah principles, the Bank collects late payment fees for delays in payment by customers. These amounts are separately held and diverted towards charitable purposes (net of the Bank's related costs) under oversight and approval of the Internal Shari'ah Supervision Committee (ISSC). During the year ended 31 December 2018, the Group disbursed AED 12.37 million (31 December 2017: AED 5.3 million) for charitable purpose.

(iii) Islamic derivatives represent the mark-to-market fair valuation of Promise to buy or sell currency contracts and profit rate swaps held by the Group. The contractual notional value on Promise to buy or sell currency contracts amounted to AED 4.6 billion at 31 December 2018 (31 December 2017: AED 4.1 billion). The contractual notional value on profit rate swaps (including profit rate swap taken on Senior Sukuk – Note 13) amounted to AED 7.2 billion as at 31 December 2018 (31 December 2017: AED 4.0 billion).

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

15 Share capital

	2018 AED'000	2017 AED'000
Authorised share capital:		
6,500 million shares (2017: 6,500 million shares) of AED 1 each	6,500,000	6,500,000
Issued and fully paid up share capital:		
3,574.9 million shares (2017: 3,574.9 million shares) of AED 1 each	3,574,895	3,574,895

(i) During the year ended 31 December 2017, the Bank's Articles of Association were amended and as per the new articles, the authorised share capital of the Bank was increased to AED 6,500 million comprising of 6,500 million shares having a nominal value of AED 1 per share.
(ii) During the year ended 31 December 2017, 217 million shares were issued at par value and subscribed to by Noor Investment Group LLC. The share capital issued is fully paid up and approved by the Board of Directors, the shareholders in the General Meeting of the Bank and the UAE Central Bank.
(iii) The Board of Directors of the Bank do not propose any dividends for the year ended 31 December 2018 (31 December 2017: Nil).

16 Tier 1 sukuk

In May 2016, the Bank issued Shari'ah compliant Tier 1 sukuk through an SPE, Noor Tier 1 Sukuk Limited, ("the issuer") amounting to USD 500 million (AED 1,836.5 million) at a par value of USD 1,000 (AED 3,673) per sukuk.

Tier 1 sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudarabah Agreement. These sukuk are expected to pay profit semi-annually based on 5 year mid-swap rate + 4.91% at the time of issuance on 1st June and 1st December of each year ("the profit payment date") commencing from 1st December 2016. The expected profit rate will be reset to a new fixed rate on the basis of the then prevailing 5 year mid-swap rate + 4.91% on 1 June 2021 ("the first reset date") and every 5 years thereafter. These sukuk are listed on NASDAQ Dubai and callable by the Bank on 1st June 2021 ("the first call date") or any profit payment date thereafter subject to certain redemption conditions. The net proceeds of Tier 1 are invested by the Bank in its general business activities on a co-mingling basis.

At the Issuer's sole discretion, it may elect not to make any Mudarabah profit distributions expected and the event is not considered an event of default. In such event, the Mudarabah profit will not be accumulated but forfeited to the issuer. If the issuer 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 make any other payment on, and will procure that no distribution or dividend or other payment is made on ordinary shares issued by the Bank, or (b) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire ordinary shares issued by the Bank.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

17 Statutory reserve

The UAE Federal Law No. (8) of 1984 (as amended), and the UAE Federal Law No. (2) of 2015 and the Articles of the Bank, require that 10% of the net profit for the year should be transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the issued share capital. Accordingly, an amount of AED 60.1 million (31 December 2017: AED 37.1 million) has been transferred to the statutory reserve for the year ended 31 December 2018. This reserve is not available for distribution.

18 Income from Islamic financing and sukuk

	2018 AED'000	2017 AED'000
Murabahah	1,388,563	1,105,910
Ijarah	307,535	269,893
Wakalah	20,048	38,307
	1,716,146	1,414,110
Profit income on Islamic sukuk	234,084	126,974
Total income from Islamic financing and sukuk	1,950,230	1,541,084

19 Depositors' and sukuk holders' share of profit

	2018 AED'000	2017 AED'000
Term accounts	515,975	273,312
Savings & Escrow accounts	70,354	62,051
Sukuk holders' profit on sukuk issued	122,913	53,669
	709,242	389,032

20 Fee and other income, net of charges

	2018 AED'000	2017 AED'000
Transactional and deposit related fees	215,331	186,316
Facility syndication and processing fees	202,008	175,930
Net foreign exchange income	171,599	241,520
Trade services related fees	54,122	74,248
Fees from credit cards	45,772	29,980
Fair value gain on Islamic derivatives	-	28,137
Other income	5,262	11,104
	694,094	747,235

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

21 Gain on investments in Islamic financing and sukuk

	2018 AED'000	2017 AED'000
Islamic financing – At FVTPL	56,539	-
Islamic sukuk - At FVOCI – realised gain	14,288	30,499
Islamic sukuk - At FVTPL	10,686	27,642
	81,513	58,141

22 Staff costs

	2018 AED'000	2017 AED'000
Salaries and allowances	422,590	429,517
Outsourced staff cost	50,939	57,993
Provision for employees' end of service benefits (Note 24)	8,695	6,828
Others	33,387	37,886
	515,611	532,224

23 General and administrative expenses

	2018 AED'000	2017 AED'000
Facilities management	55,732	56,313
IT related expenses	39,074	39,845
Legal and professional	25,549	17,938
Marketing and advertisement	20,622	19,683
Printing and stationery	13,277	10,885
Directors' fee	7,776	6,504
Communication costs	6,648	7,424
Travelling expenses	2,579	2,535
Other expenses	11,936	7,477
	183,193	168,604

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

24 Provision for employees' end of service benefits

	2018 AED'000	2017 AED'000
At 1 January	32,164	37,440
Provided during the year (Note 22)	8,695	6,828
Employees' end of service benefits transferred from related parties (Note 27)	6,384	-
Paid during the year	(5,933)	(12,104)
At 31 December	41,310	32,164

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 3.45% (31 December 2017: 3.08%). Management has assumed average annual increment/promotion costs of 4% (31 December 2017: 4.0%). The present value of the obligation as at 31 December 2018 is not materially different from the provision computed in accordance with the UAE Labour Law.

25 Impairment charge on financial assets, net

	2018 AED'000	2017 AED'000
Impairment charge on financial assets, financing commitments and financial guarantee contracts, net of reversals/recoveries:		
Due from banks	6,379	-
Investments in Islamic financing instruments	617,845	838,024
Investments in Islamic sukuk at amortized cost	(41)	-
Investments in Islamic sukuk at FVOCI	1,571	-
Financing commitments and financial guarantees	(11,874)	-
	613,880	838,024

26 Fiduciary assets

At 31 December 2018, the Group held Islamic sukuk with a market value of AED 2.4 billion (31 December 2017: AED 2.1 billion) in a fiduciary capacity on behalf of customers' without recourse to itself. Accordingly, these Islamic sukuk are not included as part of the Group's own Islamic sukuk portfolio (Note 7).

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

27 Related party balances and transactions

The Group, in the normal course of business, enters into transactions with individuals and other business enterprises that fall within the definition of a related party as defined in IAS 24, 'Related party Disclosures' at commercial terms and profit rates. Other related parties include shareholders of the Bank and other entities controlled by the Board members of the Bank. Balances and transactions with related parties are as follows:

Year ended 31 December 2018	**The parent** AED'000	**Directors and key management personnel** AED'000	**Associate and other related parties** AED'000	**Total** AED'000
Related party balances:				
Assets:				
Investments in Islamic financing instruments	-	87,116	-	87,116
Due from related parties (Note 9)	7,720	-	47,987	55,707
Accrued income from Islamic financing instruments	-	1,049	-	1,049
Equity investments in related companies (Note 9)	-	-	26,530	26,530
Investment in associate (Note 9)	-	-	1,500	1,500
Investment in Joint Venture	-	-	25,005	25,005
Liabilities:				
Customer deposits	20,093	162,328	697,016	879,437
Accrued depositors' share of profit	-	2,884	3,306	6,190
Due to related Parties	-	-	13,002	13,002
Off balance sheet:				
Contingent liabilities	-	46,329	1,443	47,772
Related party transactions:				
Income from Islamic financing	-	2,523	14,080	16,603
Depositors' share of profit	-	3,217	16,282	19,499
Staff costs	-	-	85,450	85,450
Remuneration	-	32,860	-	32,860
Fee and other income	-	393	75,237	75,630
Employees' end of service benefit transferred (Note 24)	-	-	6,384	6,384

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

27 Related party balances and transactions (continued)

Year ended 31 December 2017	**The parent** AED'000	**Directors and key management personnel** AED'000	**Associate and other related parties** AED'000	**Total** AED'000
Related party balances:				
Assets:				
Investments in Islamic financing instruments	-	29,105	226,862	255,967
Due from related parties and investments (Note 9)	379,717	-	20,996	400,713
Accrued income from Islamic financing instruments	-	2,972	94	3,066
Equity investments in related companies (Note 9)	-	-	26,530	26,530
Investment in associate (Note 9)	-	-	1,500	1,500
Liabilities:				
Customer deposits	392,186	132,083	545,123	1,069,392
Accrued depositors' share of profit	-	2,718	3,159	5,877
Due to related parties	-	-	8,065	8,065
Off balance sheet:				
Contingent liabilities	-	87,589	841	88,430
Related party transactions:				
Income from Islamic financing	1,004	322	23,291	24,617
Depositors' share of profit	-	3,210	5,460	8,670
Staff costs	-	-	155,729	155,729
Remuneration	-	34,198	-	34,198
Fee and other income	3,777	19	70,417	74,213
Tier 1 sukuk profit distribution	-	-	105	105

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

28 Contingent liabilities and commitments

(a) Contingent liabilities

	2018 AED'000	2017 AED'000
Undrawn credit commitments – Revocable	7,103,443	3,827,026
Undrawn credit commitments – Irrevocable	2,270,976	2,604,017
Letters of credit	1,077,573	368,845
Guarantees	2,945,775	2,132,572
	13,397,767	8,932,460

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of financing, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss for an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers' maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of finance authorisations being drawn by the customer and, second, from these drawings subsequently not being paid as due. The Group monitors the term to maturity of the credit commitments because longer term commitments generally have a greater degree of credit risk than the shorter term commitments. The total outstanding contractual amount of the commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financings. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

(b) Capital commitments

At 31 December 2018, the Group has capital commitments of AED 18.7 million (31 December 2017: AED 5.2 million) mainly relating to purchase of furniture, fixtures, computer equipment and development/upgrading of software.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

29 Segmental reporting

Reportable segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. The Group's reportable segments are organized into three major segments as follows:

- Retail Banking – Principally serves individuals, high net worth customers and small sized businesses.
- Wholesale Banking – Principally handling financing/ trade facilities and deposit related services for medium and large sized corporate and institutional customers, treasury services and liquidity management.
- Others –. Others comprise of Central activities and Head office functions.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment operating income represents the profit earned by each segment without allocation of expenses and impairment charge on Islamic financing instruments.

Year ended 31 December 2018	Retail Banking AED'000	Wholesale Banking AED'000	Others AED'000	Total AED'000
Net income from Islamic financing	459,619	589,005	192,364	1,240,988
Fee and other income	375,427	391,396	8,784	775,607
Total income	835,046	980,401	201,148	2,016,595
Total operating expenses				(726,587)
Operating profit before impairment on investments in Islamic financing instruments				1,290,008
Impairment charge on financial assets, net				(613,880)
Change in fair value of investment properties, net				(74,784)
Profit for the year				601,344
As at 31 December 2018				
Segment assets	11,509,633	38,082,002	1,127,563	50,719,198
Segment liabilities	13,283,506	31,424,865	-	44,708,371

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

29 Segmental reporting (continued)

Year ended 31 December 2017	Retail Banking AED'000	Wholesale Banking AED'000	Others AED'000	Total AED'000
Net income from Islamic financing	431,008	552,952	168,091	1,152,052
Fee and other income	381,201	424,175	-	805,376
Total income	812,209	977,128	168,091	1,957,428
Total expenses				(731,690)
Operating profit before impairment on investments in Islamic financing instruments				1,225,738
Impairment charge on Islamic financing instruments				(838,024)
Change in fair value of investment properties, net				(9,825)
Impairment loss on equity investments				(7,000)
Profit for the year				370,889
As at 31 December 2017				
Segment assets	10,154,787	31,334,804	1,178,947	42,668,538
Segment liabilities	11,987,114	24,831,166	-	36,818,280

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management

The Group manages all of its risk proactively through a well-established enterprise risk management practice.

The Group is exposed to the following risks in the course of its regular business:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
  - Compliance risk
  - Legal risk

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

Risk management philosophy and framework

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

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

The Board of Directors of the Group has overall responsibility for setting the risk appetite and ensuring risk is effectively managed through a robust Enterprise Risk Management (ERM) framework. Board and Management level committees have been established, as part of the Group's corporate governance structure, to oversee the performance and operations of the Group. Some of these committees are responsible specifically for overseeing execution of the ERM strategy and monitoring performance against the Group's risk management framework.

30 Risk management (continued)

Risk management philosophy and framework (continued)

Board Level Committees

Board Executive and Credit Committee ("BECC")

The purpose of the BECC is to oversee the management of the Bank on behalf of the Board and review and approve credit exposures which exceed thresholds established for management. The BECC is also responsible for reviewing strategic matters which are to be presented to the Board and do not fall within the purview of any other committee of the Board.

Board Risk Committee ("BRC")

The purpose of the BRC is to assist the Board to provide oversight of the Bank's risk management framework and advise the Board on the Bank's risk position, risk appetite, risk culture and risk management strategy. The BRC comprises of four members.

Board Audit Committee ("BAC")

The purpose of the BAC is to review and monitor, among other things, the integrity of the Bank's financial statements, the effectiveness of the Bank's internal controls, internal and external audit processes and whistleblowing procedures and the Bank's relationship with external auditors. The BAC comprises of four members.

Board Nomination and Compensation Committee ("BNCC")

The purpose of the BNCC is to consider matters relating to the composition of the Board and its committees, their performance, succession planning, remuneration policies for the Board and senior management and strategic issues relating to human resources. The BNCC comprises of three members.

Senior Management Level Committees

Management Committee ("Mancom")

The Management Committee is responsible for overseeing and managing day-to-day business and ensures the operational performance of the Group is meeting or exceeding set performance targets and authorises actions to maintain, enhance or correct service delivery issues. The Mancom is also responsible for guiding, shaping, approving and monitoring a coherent set of projects in line with the Group's long term strategy that will maintain and enhance the Bank's progress towards its future vision, recommending investment and expenditure to the Board Executive and Credit Committee (BECC) in line with that goal. In fulfilling its purpose, the Management Committee translates the decisions of the Board of Directors regarding the operation and management of the Group and regularly reports, through its Chairperson, to the BECC.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

Risk management philosophy and framework (continued)

Senior Management Level Committees (continued)

Enterprise Risk Management Committee ("ERMC")

This committee is responsible for oversight of the execution of the Bank's risk strategy and embedding a risk intelligent culture throughout the Bank. This committee is chaired by the Chief Risk Officer and meets monthly.

Management Credit Committee ("MCC")

This committee is responsible for the review of credit risks. This committee is chaired by the Chief Credit Officer and meets biweekly.

Asset Liability Committee ("ALCO")

This committee is responsible for the management of the Bank's liquidity, capital adequacy and structural foreign exchange and interest rate risks. This committee is chaired by the Treasurer and meets monthly

30.1 Credit risk management

Credit risk is the risk emanating when a counter party of the Group does not fulfil its contractual obligation or the quality of an issuer deteriorates. It arises principally from financing, trade finance and treasury activities. The credit process is consistent for all forms of credit risk to a single obligor. Overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, and risk grade are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.1 Credit risk management (continued)

Following are the risk management policies adopted by the Group to ensure credit quality and minimise the risk of concentration:

(a) Credit rating and measurement

The risk rating system is the basis for determining the credit risk of the Bank's asset portfolio (except the consumer assets) and thus asset pricing, portfolio management, determining finance loss provisions and reserves, and the basis for credit approval authority delegation. The bank uses Moody's Risk Analyst to grade the customer and facility based on internal estimate of probability of default, with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

Performing clients are rated on a scale of NOR1 to NOR7, each grade being associated with a Probability of Default ("PD"). Non-performing clients are rated NPA-1, NPA-2 and NPA-3, corresponding to the Substandard, Doubtful and Loss classifications as per Clarifications and Guidelines Manual for Circular No. 28/2012 issued by the UAE Central bank. The Group's internal credit grades have also been mapped to external agency ratings for better comparison.

(b) Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Group's Management Credit Committee ("MCC") within the authorities delegated by the Board of Directors.

(c) Credit monitoring

The Group regularly monitors credit exposures and external trends which may impact risk management outcomes. Internal risk management reports are presented to the Chief Risk Officer / Chief Credit Officer and Board Risk Committee, containing information on key variables; portfolio delinquency and financing impairment performance.

All Corporate exposures accounts are monitored carefully for performance and reviewed formally on an annual basis or earlier. Group has robust policies for client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed well in time. An exposure is categorised as watch list or non-performing as per UAE Central Bank guidelines.

All non-performing accounts are monitored closely by the Remedial Management Unit of the Group directly reporting to the Chief Risk Officer. Such accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account etc.

With respect to the Group's consumer portfolio, asset quality is monitored closely with 30/60/90 days past due accounts and delinquency trends are monitored continuously for each consumer product of the Group accounts which are past due are subjected to collection process, managed independently by the risk function.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.1 Credit risk management (continued)

(d) Credit risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit etc. Risk mitigation policies control the approval of collateral types.

Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired financings is maintained at fair value.

<u>Collateral and other credit enhancements possessed or called upon</u>

During the year, the Group obtained assets by taking possession of collateral as follows:

	31 December 2018			31 December 2017		
	Retail AED'000	Corporate AED'000	Total AED'000	Retail AED'000	Corporate AED'000	Total AED'000
Property	32,500	-	32,500	12,266	-	12,266
Vehicles	5,974	-	5,974	2,348	-	2,348
	38,474	-	38,474	14,614	-	14,614

Repossessed collateral is either disposed of or is classified as investment property in accordance with the Group's approved policy.

(e) Write-off policy

The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owned in full, but which have been partially or fully written off due to no reasonable expectation of recovery. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was AED 422 million (31 December 2017: AED 658 million).

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.1 Credit risk management (continued)

(f) Modification of financial assets

The Group may modify the terms of financing provided to customers due to commercial renegotiations, or for distressed financing, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term financing.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de recognition of the original asset. The Group monitors the subsequent performance of modified assets and may determine that the credit risk has significantly improved after restructuring, post which assets may be moved from Stage 3 to Stage 2 (Lifetime ECL) to Stage 1 (12 month ECL). This is only the case for assets which have performed for consecutive months as specified in accordance with the new terms.

The Group continues to monitor if there is significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

During the year ended 31 December 2018, there were no significant gains/losses on the modification of investments in Islamic financing instruments.

(g) Offsetting financial instruments

The Group has not entered into significant master netting arrangement with counterparties which enable them to settle transactions on net basis. In absence of such agreements the financial asset and liabilities are settled on gross basis.

Expected Credit Loss measurement

Overview

The Bank has implemented IFRS 9 in line with the IASB (The International Accounting Standards Board) and CBUAE guidelines. The IASB issued the final version of IFRS 9 standard which is effective for annual periods beginning on or after 1st January 2018, which has three major components:

- Classification and measurement:
- Expected credit loss impairment model:
- Hedge accounting.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.1 Credit risk management (continued)

Expected Credit Loss measurement (continued)

Overview (continued)

IFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarized below:

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired financial assets)
12-month expected credit losses	Default probability weighted lifetime expected credit losses	Lifetime expected credit losses

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The Bank has developed the necessary PD, LGD and EAD models incorporating the forward looking information based on macro-economic factors in the models and performed the ECL computations.

Significant increase in credit risk (SICR)

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial assets at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank’s existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant and at the portfolio level for retail exposures.

The Bank considers a financial asset to have experienced a significant increase in credit risk when one or more of the following key indicators have met the criteria as mentioned for respective portfolios:

- Downgrade in internal rating;
- Overdue status (days past due);
- Non-performing or restructuring identifiers for accounts.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.1 Credit risk management (continued)

Expected credit loss measurement (continued)

Criteria for Significant increase in credit risk (SICR) (continued)

Corporate Portfolio:

The following staging rules have been applied on the corporate portfolio to identify the movement of instruments from Stage 1 to Stage 2:

- Exposures or accounts which are overdue for more than 30 days (30 DPD) but less than (or equal to) (90 days):
- Accounts deemed as ‘Restructured’ by the Bank in the 3 months prior to the assessment date:
- Rating downgrade by 3 notches or more since origination or in case the current rating is lower than specified internal rating threshold.

The criteria for classifying to Stage 3 is the same as the Bank’s rules for classification of credit impaired/ default assets. Any account with more than 90 DPD or current non performing internal rating or accounts against which provisions are held are considered as default accounts.

Retail Portfolio:

The following stage classification rules have been applied to the Retail portfolio of the Bank to identify the movement of accounts from Stage 1 to Stage 2:

- Accounts overdue between 30 and 90 days:
- Financing restructured in last 3 months.

The criteria for classifying to Stage 3 is similar to the Bank’s rules for classification of credit impaired/ Default assets, as stipulated by the definition of default:

- Any account with more than 90 DPD or with an internal rating reflecting “Delinquency Status”.
- Accounts qualifying for any other regulatory criteria for retail non-performing accounts, as established by CBUAE.

Low Default Portfolios:

The criterion for transfer between Stages for Low Default Portfolios like Investment in Sukuk and banks is as follows:

For Stage 1 to Stage 2 migration, the following are considered:

- Rating downgraded by 3 notches or more since origination: or
- Counterparty rating of B- and lower, to be classified as stage 2.

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.1 Credit risk management (continued)

Expected credit loss measurement (continued)

Criteria for Significant increase in credit risk (SICR) (continued)

Downgrading to Stage 3 is based on the prevailing rules for Non-Performing Assets (NPA) identification, as prescribed by the CBUAE and IFRS 9 standards.

Definition of default and credit-impaired assets:

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

- It is established that due to financial or non-financial reasons the customer is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realizing security (if any is held); or
- The customer is past due 90 days or more on any material credit obligation to the Bank.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of twelve months. This period of twelve months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

Backstop:
A backstop is applied and the financial asset considered to have experienced a significant increase in credit risk of the financial asset is more than 30 days past due on its contractual payments.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques are covered in Note 3.2.3 as part of significant accounting policies.

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.1 Credit risk management (continued)

30.1.1 Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial assets which are subject to ECL. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets:

	2018				2017
	ECL staging				
Credit risk exposures relating to on-balance sheet assets are as follows:	**Stage 1** **12-month ECL** AED'000	**Stage 2** **Lifetime ECL** AED'000	**Stage 3** **Lifetime ECL** AED'000	**Total** AED'000	**Total** AED'000
Cash and balances with the UAE Central Bank	6,876,797	-	-	6,876,797	4,577,677
Impairment loss allowance	-	-	-	-	-
Carrying amount	6,876,797	-	-	6,876,797	4,577,677
Due from banks					
AAA to AA-	23,805	-	-	23,805	28,131
A+ to BBB-	713,376	-	-	713,376	2,400,357
BB+ & below	1,998,591	183,206	-	2,181,797	1,683,525
Unrated	49,246	-	-	49,246	768,177
	2,785,018	183,206	-	2,968,224	4,880,190
Impairment loss allowance (Note 5)	(9,075)	(784)	-	(9,859)	-
Carrying amount	2,775,943	182,422	-	2,958,365	4,880,190
Gross investments in Islamic financing instruments – At amortized cost					
NOR 1 to NOR 7	29,442,620	3,063,339	-	32,505,959	28,100,967
Impaired(NPA1, NPA2, NPA3)	-	-	1,518,807	1,518,807	1,275,720
	29,442,620	3,063,339	1,518,807	34,024,766	29,376,687
Impairment loss allowance (Note 6)	(257,227)	(1,044,748)	(1,001,754)	(2,303,729)	(1,926,999)
Carrying amount	29,185,393	2,018,591	517,053	31,721,037	27,449,688
Investments in Islamic Sukuk – At amortized cost & FVOCI (2017: Held-to-maturity & Available-for-sale)					
AAA to AA-	568,413	-	-	568,413	-
A+ to BBB-	4,160,343	-	-	4,160,343	1,598,456
BB+ & below	1,623,024	-	-	1,623,024	939,635
Unrated	-	-	-	-	603,352
	6,351,780	-	-	6,351,780	3,141,443
Impairment loss allowance	(11,580)	-	-	(11,580)	-
Carrying amount	6,340,200	-	-	6,340,200	3,141,443
Other assets (excluding non-financial assets & financial assets at FVTPL)	366,261	-	-	366,261	604,637
Impairment loss allowance	-	-	-	-	-
Carrying amount	366,261	-	-	366,261	604,637

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.1 Credit risk management (continued)

30.1.1 Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

Credit risk exposures relating to off-balance sheet items are as follows:	2018 ECL staging Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	2017 Total AED'000
Contingent liabilities (excluding revocable commitments)					
NOR 1 to NOR 7	5,921,284	373,040	-	6,294,324	5,105,434
Impairment loss allowance on off-balance sheet items (Note 14)	(24,869)	(20,855)	-	(45,724)	-

The table below shows the maximum exposure to credit risk – financial assets not subject to impairment.

	2018 AED'000	2017 AED'000
Investments in Islamic financing instruments – FVTPL	277,579	-
Investments in Islamic Sukuk – FVTPL	764,727	585,545
Equity investments in related companies – FVTPL	26,530	26,530
Islamic derivatives	11,135	36,218
	1,079,971	648,293

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.1 Credit risk management (continued)

30.1.2 Expected credit losses

The following tables show reconciliations from the opening balance to the closing balance of the impairment loss allowance on Investment in Islamic financing instruments at amortized cost

	2018 Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Investments in Islamic financing instruments - At amortized cost				
Impairment loss allowance at 1 January	278,949	917,543	911,977	2,108,469
Transfers				
Transfer from Stage 1 to Stage 2	(12,396)	24,228	-	11,832
Transfer from Stage 2 to Stage 1	9,609	(21,397)	-	(11,788)
Transfer from Stage 2 to Stage 3		(51,696)	229,406	177,710
New financing assets originated	34,258	992	-	35,250
Financing assets matured/repaid	(12,816)	(2,868)	(1,070)	(16,754)
Changes in PDs / LGDs / EADs and other movement	(40,004)	177,573	284,026	421,595
Write-offs	-	-	(422,585)	(422,585)
Impairment Loss allowance at 31 December	257,600	1,044,375	1,001,754	2,303,729

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.1 Credit risk management (continued)

30.1.2 Expected credit losses (continued)

The following table further explains changes in the carrying amount of the investment in Islamic financing instruments to help explain significant changes in the impairment loss allowance for the same portfolios as given above:

	2018			
	Stage 1 AED'000	**Stage 2** AED'000	**Stage 3** AED'000	**Total** AED'000
Investments in Islamic financing instruments - At amortized cost				
Gross balance at 1 January	24,891,101	3,149,950	1,275,719	29,316,770
Transfers				
Transfer from Stage 1 to Stage 2	(544,747)	544,747	-	-
Transfer from Stage 2 to Stage 1	228,367	(228,367)	-	-
Transfer from Stage 2 to Stage 3		(656,181)	656,181	-
New financing assets originated	5,813,702	34,415	-	5,848,117
Financing assets matured/repaid	(1,232,285)	(46,088)	(1,990)	(1,280,363)
Other movements	299,649	251,696	11,482	562,827
Write-offs	-	-	(422,585)	(422,585)
Gross balance at 31 December	29,455,787	3,050,172	1,518,807	34,024,766

As set out in note 30.1.1, majority of the other financial instruments are in stage 1 throughout the year and, therefore have insignificant ECLs. Accordingly, there have been no significant movements between stages in respect of these financial instruments.

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.2 Liquidity risk

Liquidity risk is the risk that the Group is not in a position to fund growth in assets or meet obligations as they become due. Liquidity risk arises in the normal course of business by taking shorter term deposits, often repayable on demand or at short notice, and using these deposits to fund credit facilities over medium to longer periods. The Group has defined the liquidity risk appetite at a level so as to ensure that the Group has a controlled liquidity risk position with adequate cash or cash equivalents to be able to meet its financial obligations, in all foreseeable circumstances and without incurring substantial additional costs.

Asset Liability Committee (ALCO)

The ALCO develops and implements the policy and procedures that translate the Group's goals, objectives, and risk tolerances into operating standards that are well understood by Group staff. ALCO oversees the implementation and maintenance of management information and other systems that identify, measure, monitor and control the bank's liquidity risk.

Liquidity management and monitoring

The Group's daily liquidity management activity is performed by the Treasury Department. Treasury's activity is overseen by the Market Risk team which measures, monitors and reports on liquidity management activity, covering the following activities:

- Monitoring of the maturity profile of assets and liabilities on a continuous basis inclusive of currency wise position analysis;
- Forecasting future cash flows between sources and uses of funds;
- Stress testing based on the sensitivity analysis of key factors and combined events:
- Measuring Key regulatory liquidity indicators e.g. Advances to Stable Resources ratio (ASRR) ratio, Eligible Liquid Assets ratio (ELAR), Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). In addition to these ALCO has also set targets for maximum cumulative outflow (MCO) including for a set of various other ratios ensuring proper liquidity measurement;
- Monitoring of concentration risks in deposit sources; and
- Monitoring of early warning indicators to assess the potential impact arising from a series of defined idiosyncratic and systemic stress scenarios.

ALCO has also set internal targets for above measures (wherever applicable) which are generally more conservative than the requirements set by the regulator.

Liquidity Contingency plan

The Group has a formal liquidity contingency plan approved by Board of Directors (BOD) that contains clearly documented management action triggers for each type of event and recommended actions against those events with defined roles and responsibilities for key personnel.

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.2 Liquidity risk (continued)

(a) The following table presents the cash flow analysis of remaining contractual maturities of Group's financial liabilities on an undiscounted basis, relating to both principal and profit payments:

	Carrying amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000
At 31 December 2018						
Customer deposits	35,357,729	24,671,952	8,452,583	2,683,642	74,791	35,882,968
Due to banks	2,751,947	2,143,428	627,136	-	-	2,770,564
Sukuk financing instruments	3,673,150	-	133,317	3,986,148	-	4,119,465
Other liabilities	2,919,340	2,919,340	-	-	-	2,919,340
	44,702,166	29,734,720	9,213,036	6,669,790	74,791	45,692,337
At 31 December 2017						
Customer deposits	30,329,118	19,516,277	7,604,061	3,500,700	-	30,621,038
Due to banks	1,908,507	909,047	566,570	455,082	-	1,930,699
Sukuk financing instruments	1,836,450	-	51,203	1,913,255	-	1,964,458
Other liabilities	2,739,094	2,739,094	-	-	-	2,739,094
	36,813,169	23,164,418	8,221,834	5,869,037	-	37,255,289

As at 31 December 2018, top 20 customers constitute 32% of total customer deposits (31 December 2017: 33%). Customer deposits due for maturity within 3 months include Escrow account balances and lien marked Qard-E-Hasan (demand) deposit balances which are expected to be retained for longer than 3 months. Remaining customer deposits, although contractually short term in nature, tend to be renewed on maturity and are expected to remain with the Bank for a longer term.

NOOR BANK
Noor gets it done

(b) *Maturity profile of the carrying amounts of financial assets and financial liabilities*

	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000
At 31 December 2018					
Assets					
Cash and balances with the UAE Central Bank	6,876,797	-	-	-	6,876,797
Due from banks	2,392,737	565,628	-	-	2,958,365
Investments in Islamic financing instruments	1,491,377	4,527,350	10,739,606	15,240,283	31,998,616
Investments in Islamic Sukuk	40,310	784,218	2,712,286	3,577,535	7,114,349
Other assets	377,396	-	-	53,035	430,431
Total	11,178,617	5,877,196	13,451,892	18,870,853	49,378,558
Liabilities					
Customer deposits	24,499,781	8,211,123	2,591,825	55,000	35,357,729
Due to banks	2,133,390	618,557	-	-	2,751,947
Sukuk financing instruments	-	-	3,673,150	-	3,673,150
Other liabilities	2,919,340	-	-	-	2,919,340
Total	29,552,511	8,829,680	6,264,975	55,000	44,702,166
Net liquidity gap	(18,373,894)	(2,952,484)	7,186,917	18,815,853	4,676,392
Cumulative gap	(18,373,894)	(21,326,378)	(14,139,461)	4,676,392	

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.2 Liquidity risk (continued)

(b) Maturity profile of the carrying amounts of financial assets and financial liabilities (continued)

At 31 December 2017	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank	4,577,677	-	-	-	4,577,677
Due from banks	4,306,648	573,542	-	-	4,880,190
Investments in Islamic financing instruments	1,886,028	3,427,254	11,017,270	11,119,136	27,449,688
Investments in Islamic Sukuk	73,458	52,000	1,506,940	2,094,590	3,726,988
Other assets	640,855	-	-	28,030	668,885
Total	11,484,666	4,052,796	12,524,210	13,241,756	41,303,428
Liabilities					
Customer deposits	19,428,127	7,455,212	3,445,779	-	30,329,118
Due to banks	907,097	560,674	440,736	-	1,908,507
Sukuk financing instruments	-	-	1,836,450	-	1,836,450
Other liabilities	2,739,094	-	-	-	2,739,094
Total	23,074,318	8,015,886	5,722,965	-	36,813,169
Net liquidity gap	(11,589,652)	(3,963,090)	6,801,245	13,241,756	4,490,259
Cumulative gap	(11,589,652)	(15,552,742)	(8,751,497)	4,490,259	

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.3 Market risk (continued)

Market risk is the potential impact of adverse price movements such as benchmark rates, foreign exchange prices and commodity prices on the earnings/economic value of an asset held by the Group. The exposure to market risk occurs throughout the contract which may negatively affect the earnings and capital of the Group. The Market Risk unit is responsible for monitoring and reporting this risk in the Group.

(a) Profit rate risk

The following table summarises the financial assets and liabilities of the Group, which are subject to profit rate risk, at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period:

At 31 December 2018	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Non-profit bearing AED'000	Total AED'000	Profit rate %
Assets							
Cash and balances with the UAE Central Bank	750,000	-	-	-	6,126,797	6,876,797	2.20
Due from banks	2,031,194	565,628	-	-	361,543	2,958,365	4.46
Investments in Islamic financing instruments	20,952,941	5,382,945	4,328,310	1,334,420		31,998,616	5.56
Investments in Islamic sukuk	93,306	787,201	2,695,385	3,538,457	-	7,114,349	4.45
	23,827,441	6,735,774	7,023,695	4,872,877	6,488,340	48,948,127	
Liabilities							
Customer deposits	10,397,210	9,365,039	5,491,883	55,000	10,048,597	35,357,729	2.08
Due to banks	2,045,125	618,557	-	-	88,264	2,751,947	3.13
Sukuk financing instruments	-	-	3,673,150	-	-	3,673,150	3.63
	12,442,335	9,983,597	9,165,033	55,000	10,136,861	41,782,826	
Net position on balance sheet	11,385,106	(3,247,822)	(2,141,338)	4,817,877	(3,648,521)	7,165,302	

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.3 Market risk

(a) Profit rate risk (continued)

At 31 December 2017 Assets	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Non-profit bearing AED'000	Total AED'000	Profit rate %
Cash and balances with the UAE Central Bank	500,000	-	-	-	4,077,677	4,577,677	1.20
Due from banks	3,732,556	573,542	-	-	574,092	4,880,190	2.85
Investments in Islamic financing instruments	16,049,527	5,980,972	4,707,249	711,940	-	27,449,688	4.92
Investments in Islamic sukuk	73,457	86,107	1,676,476	1,890,948	-	3,726,988	4.54
	20,355,540	6,640,621	6,383,725	2,602,888	4,651,769	40,634,543	
Liabilities							
Customer deposits	9,936,560	7,422,335	3,446,355	-	9,523,868	30,329,118	1.52
Due to banks	610,237	560,674	440,736	-	296,860	1,908,507	2.21
Sukuk financing instruments	-	-	1,836,450	-	-	1,836,450	2.79
	10,546,797	7,983,009	5,723,541	-	9,820,728	34,074,075	
Net position on balance sheet	9,808,743	(1,342,388)	660,184	2,602,888	(5,168,959)	6,560,468	

The impact of 1% change in profit rates on a progressive basis over the year would have an impact of AED 48 million (31 December 2017: AED 52 million) on the Group's consolidated income statement for the year ended 31 December 2018. The analysis is based on the assumptions that any other relevant variables like volumes, risk factors, etc remain constant.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.3 Market risk (continued)

(b) Foreign currency risk

Foreign currency risk represents the risk of change in the fair value of financial assets and financial liabilities due to changes in foreign exchange rates. The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows through setting limits on the level of exposure by currency. At the end of the year, the Bank had the following significant net foreign currency exposures:

	Balances in Foreign Currency						Balances in local currency	
	USD	EUR	GBP	SAR	Others	Sub-total		Total
At 31 December 2018	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets								
Cash and balances with the UAE Central Bank	967,203	-	-	-	-	967,203	5,909,594	6,876,797
Due from banks	2,756,035	24,073	9,297	17,145	53,031	2,859,581	98,784	2,958,365
Investments in Islamic financing instruments	7,488,653	4,938	-	139,574	-	7,633,165	24,365,451	31,998,616
Investments in Islamic sukuk	7,114,349	-	-	-	-	7,114,349	-	7,114,349
Other assets	20,991	307	-	28,805	-	50,103	353,823	403,926
	18,347,231	29,318	9,297	185,524	53,031	18,624,401	30,727,652	49,352,053
Liabilities								
Customer deposits	8,370,668	1,619,198	228,294	2,491,385	47,878	12,757,423	22,600,306	35,357,729
Due to banks	2,225,921	-	-	74,419	668	2,301,008	450,939	2,751,947
Sukuk financing instruments	3,673,150	-	-	-	-	3,673,150	-	3,673,150
Other liabilities	1,920,257	34,462	238	26,499	-	1,981,456	937,884	2,919,340
	16,189,996	1,653,660	228,532	2,592,303	48,546	20,713,037	23,989,129	44,702,166
Net on-balance sheet foreign currency exposure	2,157,235	(1,624,342)	(219,235)	(2,406,779)	4,485	(2,088,636)		
Net FX position on account of FX contracts	(1,932,949)	1,637,023	221,570	2,398,060	(3,574)	2,320,130		
Net FX open position	224,286	12,681	2,335	(8,719)	911	231,494		

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.3 Market risk (continued)

(b) Foreign currency risk (continued)

	Balances in Foreign Currency							
	USD	EUR	GBP	SAR	Others	Sub-total	Balances in local currency	Total
At 31 December 2017	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets								
Cash and balances with the UAE Central Bank	956,461	-	-	-	-	956,461	3,621,216	4,577,677
Due from banks	3,777,939	15,414	52,087	18,915	261,843	4,126,198	753,992	4,880,190
Investments in Islamic financing instruments	4,889,520	-	-	170,160	-	5,059,680	22,390,008	27,449,688
Investments in Islamic sukuk	3,726,988	-	-	-	-	3,726,988	-	3,726,988
Other assets	341,970	277	14,884	-	-	357,131	318,209	675,340
	13,692,878	15,691	66,971	189,075	261,843	14,226,458	27,083,425	41,309,883
Liabilities								
Customer deposits	6,285,609	1,715,423	289,406	733,443	438,087	9,461,968	20,867,150	30,329,118
Due to banks	1,318,839	-	24,818	-	933	1,344,590	563,917	1,908,507
Sukuk financing instruments	1,836,450	-	-	-	-	1,836,450	-	1,836,450
Other liabilities	1,858,481	37,241	-	1,466	4	1,897,192	841,902	2,739,094
	11,299,379	1,752,664	314,224	734,909	439,024	14,540,200	22,272,969	36,813,169
Net on-balance sheet foreign currency exposure	2,393,499	(1,736,973)	(247,253)	(545,834)	(177,181)	(313,742)		
Net FX position on account of FX contracts	(755,883)	1,739,753	260,850	507,161	166,376	1,918,257		
Net FX open position	1,637,616	2,780	13,597	(38,673)	(10,805)	1,604,515		

The impact of a 1% increase/decrease in the foreign exchange rates of the Bank's net FX open position is AED 0.2 million on the Group's consolidated income statement for the year ended 31 December 2018 (31 December 2017: AED 0.1 million). The analysis is based on the assumptions that any other relevant variables like FX positions, currency mix, etc .remain constant and current currency peg continues.

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.3 Market risk (continued)

(c) Price risk

The Bank is exposed to price risk arising from publicly traded investments in Islamic sukuk classified as at fair value through income statement and FVOCI.

A present value one basis point (PVBP) increase/decrease in the prices will have an impact of AED 2.2 million on the Group's investment portfolio for the year ended 31 December 2018 (31 December 2017: AED 1.9 million). The analysis is based on the assumptions that any other relevant variables like portfolio levels, risk factors, etc remain constant.

30.4 Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in an active market for identical financial instruments.

  Level 2 – Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using discounted cash flow techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. The input used for the measurement of fair value of the Level 3 instrument disclosed below is the effective profit rate of the instrument.

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

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.4 Fair value hierarchy (continued)

The financial instruments and non-financial assets measured at fair value as per the hierarchy are disclosed in the table below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 31 December 2018			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified at FVOCI	4,390,568	-	-
- Classified as FVTPL	764,727	-	-
Investments in Islamic financing instruments – At FVTPL	-	23,346	254,233
Fair value of Islamic derivatives	-	11,135	-
	5,155,295	34,481	254,233
Financial liabilities			
Fair value of Islamic derivatives	-	28,745	-
Fair value on sukuk financing instrument	-	1,854,778	-
		1,883,523	-
As at 31 December 2017			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified as available-for-sale	2,476,174	-	-
- Classified as held-for-trading	326,261	259,284	-
Fair value of Islamic derivatives	-	36,218	-
	2,802,435	295,502	-
Financial liabilities			
Fair value of Islamic derivatives	-	10,556	-

The different levels for fair values of non-financial assets have been defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). For investment properties and land and buildings, the fair values have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.4 Fair value hierarchy (continued)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 31 December 2018			
Non-financial assets at fair value			
Investment properties	-	1,127,563	-
Buildings	-	116,603	-
	-	1,244,166	-
As at 31 December 2017			
Non-financial assets at fair value			
Investment properties	-	1,178,947	-
Buildings	-	124,937	-
	-	1,303,884	-

At 31 December 2018, the carrying value of the Group's financial assets and liabilities measured at amortized cost, approximate their fair values except for Investments in Islamic sukuk at amortized (Note 7). There have been no transfers of financial assets and non-financial assets between Level 1 and Level 2 during the years ended 31 December 2018 or 2017. Movement of financing instruments at FVTPL based on the Level 3 hierarchy are as follows:

	2018 AED'000	2017 AED'000
At 1 January	-	-
Purchases during the year	226,817	-
Disposal during the year	(25,694)	-
Change in fair value	53,110	-
At 31 December	254,233	-

30.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed processes, people, technology and infrastructure within the Group, and from external factors other than credit, market and liquidity risks such as those arising from disruptive business events, natural disasters, non-compliance with regulations and generally accepted standards of corporate behaviour.

The Group has a sound Operational Risk Management Framework, which outlines approaches to identifying, measuring, reporting and mitigating operational, information security and business continuity risks with forward looking management discipline. The management of operational risk is the primary responsibility of each business or support function and implementation of the framework is co-ordinated by a dedicated team under leadership of Chief Risk Officer, who maintains supervisory oversight and drives improvement in areas such as:

- Adequacy of segregation of duties and controls over critical processes and services:
- New products or services launch, changes to existing product or services:
- Critical outsourcing and service arrangement with third parties and business partners:

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.5 Operational risk (continued)

- Review of new systems, applications or service delivery solutions:
- Review of significant control break-downs, operational losses or near-misses, unethical sales and marketing practices, etc:
- Development of strong risk culture through staff awareness and risk socialization programmes.

Information Security

Information Security risk is increasingly assuming prominent threat potential in digital age. The Group recognizes its key dependencies on systems, people and service processes and the risks, to which they are exposed to both from internal and external factors.

To mitigate these threats, the Group has implemented robust information security framework based on leading international standards like ISO 27000 series and industry best practices.

Business Continuity Management

The Group is committed to ensure continuity and resilience of its key business processes and service deliveries against internal and external disruptive events, natural calamities, etc. To achieve these objectives, the Group has designed and implemented a robust Business Continuity Management Framework by identifying disruptive scenarios, developing continuity plans and periodically testing the same for their continued viability.

30.6 Capital management and capital adequacy as per Basel III requirement

The Group manages its capital considering both regulatory and economic capital. The Group calculates its risk asset ratio in accordance with requirements and guidelines established by the UAE Central Bank prescribing the ratio of total capital to total risk-weighted assets. This is in line with the assessment and reporting of capital adequacy ratio in accordance with the Basel III Accord.

The following are the minimum requirements:

	2018	2017
Common equity tier 1 ratio*	8.875%	8.25%
Tier 1 capital ratio*	10.375%	9.75%
Capital adequacy ratio*	12.375%	11.75%

* Including capital conservation buffer requirement of 1.875% (2017: 1.25%).

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.6 Capital management and capital adequacy as per Basel III requirement (continued)

	31 December 2018 AED'000	31 December 2017 AED'000
CET 1 Capital		
Share capital	3,574,895	3,574,895
Statutory reserve	346,914	286,779
Retained earnings	176,613	40,450
Fair value reserve on Islamic sukuk at FVOCI	(40,096)	(7,250)
	4,058,326	3,894,874
Additional Tier 1 (AT1) Capital		
Tier 1 sukuk	1,836,500	1,836,500
Total Tier 1 Capital	5,894,826	5,731,374
Tier 2 Capital		
General provision	447,372	386,853
Total Tier 2 Capital	447,372	386,853
Total regulatory capital	6,342,198	6,118,227
Risk weighted assets		
Credit risk	35,789,772	30,948,232
Market risk	533,052	269,044
Operational risk	3,388,757	2,964,434
Risk weighted assets	39,711,581	34,181,710
Common equity tier 1 ratio	10.22%	11.39%
Tier 1 capital ratio	14.84%	16.77%
Capital adequacy ratio	15.97%	17.90%

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.6 Capital management and capital adequacy requirement (continued)

Asset classes in 2018	On balance sheet gross outstanding AED'000	Off balance sheet exposure AED'000	Exposure before CRM (net off specific provision and profit in suspense) AED'000	Credit risk mitigation (CRM): CRM AED'000	Credit risk mitigation (CRM): Net exposure after CRM, CCF and Other adjustments AED'000	Credit risk mitigation (CRM): Risk weighted assets AED'000
Claims on sovereigns	11,503,171	-	11,503,171	-	11,503,171	978,764
Claims on non-central government public sector entities	742,984	457,018	1,200,002	-	971,493	44,860
Claims on multilateral development banks	14,318	-	14,318	-	14,318	7,159
Claims on banks	3,821,528	426,946	4,248,474	(95,716)	4,245,744	3,089,295
Claims on securities firms	6,394	-	6,394	-	6,394	6,394
Claims on corporates	20,609,404	12,324,349	32,933,753	(1,764,129)	23,147,670	21,534,999
Claims included in the regulatory retail portfolio	5,265,970	788,143	6,054,113	(421,349)	5,265,970	3,880,725
Claims secured by residential property	5,217,589	128,545	5,346,134	-	5,249,217	2,035,654
Claims secured by commercial real estate	1,830,344	3,835	1,834,179	-	1,832,262	1,832,262
Past due financing	1,500,272	8,417	506,936	-	502,728	502,728
Other assets	2,928,874	-	2,740,567	-	2,740,567	1,876,931
	53,440,847	14,137,253	66,388,040	(2,281,194)	55,479,533	35,789,772

The total collateral held by the Group as CRM includes AED 1.8 billion as cash collateral (31 December 2017: AED 1.5 billion as cash collateral).

NOOR BANK
Noor gets it done

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.6 Capital management and capital adequacy requirement (continued)

Asset classes in 2017	On balance sheet gross outstanding AED'000	Off balance sheet exposure AED'000	Exposure before CRM (net off specific provision and profit in suspense) AED'000	Credit risk mitigation (CRM): CRM AED'000	Credit risk mitigation (CRM): Net exposure after CRM, CCF and Other adjustments AED'000	Credit risk mitigation (CRM): Risk weighted assets AED'000
Claims on sovereigns	6,445,659	-	6,445,659	-	6,445,659	640,943
Claims on non-central government public sector entities	240,273	498,649	738,922	-	489,597	29,953
Claims on multilateral development banks	14,649	-	14,649	-	14,649	7,324
Claims on banks	5,250,315	213,431	5,463,747	(98,790)	5,454,247	2,589,514
Claims on securities firms	7,112		7,112	-	7,112	7,112
Claims on corporates	18,183,304	7,772,519	25,955,822	(1,492,375)	20,124,442	18,768,351
Claims included in the regulatory retail portfolio	4,526,958	466,158	4,993,116	(254,422)	4,526,958	3,311,428
Claims secured by residential property	4,836,178	159,403	4,995,581	-	4,870,137	1,956,875
Claims secured by commercial real estate	993,821	2,895	996,717	-	994,400	994,400
Past due financing	1,273,464	11,690	1,285,154	-	363,826	363,826
Other assets	3,146,978	-	3,146,978	-	2,993,449	2,278,506
	44,918,711	9,124,745	54,043,457	(1,845,587)	46,284,476	30,948,232

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

30 Risk management (continued)

30.6 Capital management and capital adequacy requirement (continued)

The capital requirement for market risk under the standardised approach is as follows:

	2018		2017	
	Risk weighted assets AED'000	Capital charge AED'000	Risk weighted assets AED'000	Capital charge AED'000
Profit rate risk	515,760	63,825	257,939	30,308
Foreign exchange risk	17,291	2,140	11,105	1,305
	533,052	65,965	269,044	31,613

Capital charge for year ended 31 December 2018 has been calculated at 12.375% (31 December 2017: 11.75 %) based on minimum regulatory thresholds.

31 Comparative figures

Certain comparative figures have been regrouped or reclassified to conform to the presentation adopted in these consolidated financial statements, the effect of which is considered immaterial.