Standard Chartered Bank – UAE Branches

Financial statements

31 December 2017

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Contents ***Page***

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Independent Auditors' Report

To the Chief Executive Officer of Standard Chartered Bank – UAE Branches

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Standard Chartered Bank – UAE Branches ("the Bank"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and their preparation in compliance with the applicable provision of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purposes of our audit.

KPMG Lower Gulf Limited

Vijendra Nath Malhotra

Registration number: 48

Dubai, United Arab Emirates

Date: 28 MAR 2018

Standard Chartered Bank - UAE Branches

Statement of financial position

As at 31 December 2017

	Note	2017 AED 000	2016 AED 000
Assets			
Cash and balances with the Central Bank of the UAE	*5*	**8,024,645**	8,333,802
Loans and advances to banks	*6*	**3,805,596**	2,648,467
Due from the Head Office and other branches	*29*	**3,258,527**	4,328,099
Loans and advances to customers	*7*	**30,164,462**	30,069,113
Customers' indebtedness for acceptances	*28*	**1,334,823**	1,941,084
Investment securities	*8*	**4,605,812**	5,642,245
Property and equipment	*9*	**28,322**	18,077
Intangible assets	*10*	**17,949**	16,278
Other assets	*11*	**2,084,455**	2,926,876
Total assets		**53,324,591**	55,924,041
Liabilities			
Due to banks	*12*	**958,036**	3,224,317
Due to the Head Office and other branches	*29*	**4,178,658**	3,412,142
Deposits from customers	*13*	**37,059,402**	37,043,926
Liabilities under acceptances	*28*	**1,334,823**	1,941,084
Other liabilities	*14*	**2,533,535**	3,063,002
Subordinated loan	*15*	**624,407**	1,873,133
Total liabilities		**46,688,861**	50,557,604
Equity			
Head Office assigned capital	*16*	**3,537,602**	2,288,850
Statutory reserve	*17*	**1,083,318**	1,080,531
Fair value reserve		**(8,461)**	(7,236)
Hedging reserve	*26*	**(4,684)**	(2,499)
Actuarial gain on retirement benefit schemes		**8,568**	12,490
Retained earnings		**2,019,387**	1,994,301
Total equity		**6,635,730**	5,366,437
Total liabilities and equity		**53,324,591**	55,924,041

The attached notes 1 to 34 form part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

These financial statements were approved and authorized for issue on 28 March 2018 and signed by:

Julian Wynter
Chief Executive Officer

Mohamed Abdelbary
Chief Financial Officer

Standard Chartered Bank - UAE Branches

Statement of profit or loss

For the year ended 31 December 2017

	Note	2017 AED 000	2016 AED 000
Interest income	*18*	**1,629,164**	1,757,385
Interest expense	*19*	**(344,534)**	(336,256)
Net interest income		**1,284,630**	1,421,129
Fee and commission income	*20*	**731,114**	653,510
Fee and commission expense		**(237,529)**	(239,245)
Net fee and commission income		**493,585**	414,265
Other operating income	*21*	**196,046**	423,402
Total operating income		**1,974,261**	2,258,796
Personnel expenses	*22*	**(627,421)**	(732,527)
Depreciation and amortisation	*9 & 10*	**(16,167)**	(17,004)
Administrative and general expenses	*22*	**(762,267)**	(804,850)
Total operating expenses		**(1,405,855)**	(1,554,381)
Operating profit before impairment losses and taxation		**568,406**	704,415
Impairment losses (net)	*7*	**(527,005)**	(911,834)
Profit / (Loss) for the year before taxation		**41,401**	(207,419)
Taxation	*23*	**(13,528)**	18,774
Net profit / (loss) for the year		**27,873**	(188,645)

The attached notes 1 to 34 form part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

Standard Chartered Bank - UAE Branches

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2017

	Note	**2017** **AED 000**	2016 AED 000
Net profit / (loss) for the year		**27,873**	(188,645)
Other comprehensive income			
Items that will not be reclassified to statement of profit or loss			
Actuarial loss on retirement benefit schemes		**(4,902)**	(2,509)
Items that may be reclassified to statement of profit or loss			
Fair value movement on available-for-sale investments			
Net losses from changes in fair value during the year		**(7,333)**	(967)
Net fair value losses transferred to statement of profit or loss on disposal		**(1,196)**	(2,998)
Transfer to statement of profit or loss for the hedged items		**6,997**	4,778
Fair value movement on cash flow hedges			
Net gains / (losses) from changes in fair value during the year		**637**	(666)
Net fair value losses transferred to statement of profit or loss on disposal		**(3,368)**	(3,437)
Taxation relating to components of other comprehensive income	*23.1*	**1,833**	1,160
Total other comprehensive loss for the year, net of taxation		**(7,332)**	(4,639)
Total comprehensive income / (loss) for the year		**20,541**	(193,284)

The attached notes 1 to 34 form part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

Standard Chartered Bank – UAE Branches

Statement of cash flows

For the year ended 31 December 2017

	Note	2017 AED 000	2016 AED 000
Cash flows from operating activities			
Profit / (Loss) for the year before taxation		**41,401**	(207,419)
Adjustments for:			
Impairment losses	*7*	**575,576**	949,645
Depreciation and amortisation	*9 & 10*	**16,167**	17,004
Amortisation of discount on investment securities	*8*	**14,673**	22,108
Currency movement on subordinated loan from the Head Office		**30**	(56)
Currency movement on investments		**(247)**	72
Gain on sale of property and equipment		**(7,551)**	(1,235)
Net gains on hedged securities at fair value through profit or loss		**(6,997)**	(4,780)
Operating profit before changes in operating assets and liabilities		**633,052**	775,339
Change in balances with Central Bank of UAE maturing after three months		**2,220,001**	3,147,297
Change in loans and advances to banks maturing after three months		**(1,271,717)**	840,192
Change in due from the Head Office and other branches maturing after three months		**698,975**	(386,163)
Change in loans and advances to customers		**(592,922)**	2,793,262
Change in other assets		**254,317**	(272,267)
Change in deposits from customers		**15,476**	(3,741,226)
Change in due to banks maturing after three months		**18,202**	(126,429)
Change in due to the Head Office and other branches maturing after three months		**(920,052)**	1,052,326
Change in other liabilities		**106,035**	(58,365)
Taxes paid	*23*	**(143,723)**	(15,374)
Net cash generated from operating activities		**1,017,644**	4,008,592
Cash flows from investing activities			
Acquisition of investment securities		**1,027,473**	(2,696,394)
Net Additions to property and equipment, and intangible assets		**(20,532)**	(11,740)
Net cash used in investing activities		**1,006,941**	(2,708,134)
Cash flows from financing activities			
Repayment subordinated loan obtained from the Head Office		**(1,248,756)**	-
Additional assigned capital received from the Head Office		**1,248,752**	-
Net cash used in financing activities		**(4)**	**-**
Net increase in cash and cash equivalents		**2,024,581**	1,300,458
Cash and cash equivalents at 1 January		**3,775,608**	2,475,150
Cash and cash equivalents at 31 December	*25*	**5,800,189**	3,775,608

The attached notes 1 to 34 form part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

Standard Chartered Bank - UAE Branches

Statement of changes in equity

For the year ended 31 December 2017

	Head Office assigned capital	Statutory reserve	Fair value reserve	Hedging reserve	Actuarial (loss) / gain on retirement benefit schemes	Retained earnings	Total
	AED 000	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**
Balance at 1 January 2016	2,288,850	1,080,531	(7,886)	783	14,497	2,182,946	5,559,721
Additional capital from the Head Office	-	-	-	-	-	-	-
Funds remitted to the Head Office	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	(188,645)	(188,645)
Other comprehensive income/ (loss) for the year*	-	-	650	(3,282)	(2,007)	-	(4,639)
Transfer to statutory reserve	-	-	-	-	-	-	-
Balance at 31 December 2016	**2,288,850**	**1,080,531**	**(7,236)**	**(2,499)**	**12,490**	**1,994,301**	**5,366,437**
Additional capital from the Head Office	1,248,752	-	-	-	-	-	1,248,752
Funds remitted to the Head Office	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	27,873	27,873
Other comprehensive loss for the year*	-	-	(1,225)	(2,185)	(3,922)	-	(7,332)
Transfer to statutory reserve	-	2,787	-	-	-	(2,787)	-
Balance at 31 December 2017	**3,537,602**	**1,083,318**	**(8,461)**	**(4,684)**	**8,568**	**2,019,387**	**6,635,730**

* Amounts shown in other comprehensive income / (loss) are net of deferred tax.

The attached notes 1 to 34 form part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

Notes

(forming part of these financial statements)

1 Legal status and activities

Standard Chartered Bank – UAE Branches (“the Bank”) operates in the United Arab Emirates (“UAE”) through its eleven branches located in the Emirates of Abu Dhabi, Dubai and Sharjah under a banking licence issued by the Central Bank of the UAE. The Head Office of the Bank is Standard Chartered PLC (“the Head Office/ the Group”), which is incorporated in the United Kingdom.

The principal office address in the UAE is P.O. Box 999, Dubai, United Arab Emirates.

The principal activities of the Bank include accepting deposits, granting loans and advances and providing other banking services to customers in the United Arab Emirates.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared on an ongoing basis in accordance with the International Financial Reporting Standards (IFRSs) (which comprises accounting standards issued by International Accounting Standards Board (IASB) as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the requirements of applicable laws in the UAE.

(b) Basis of measurement

These financial statements have been prepared under the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available for sale financial assets are measured at fair value;
- the liability for defined benefit obligations is recognised at the present value of the defined benefit obligation; and
- recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships, for which amortized cost is adjusted for changes in fair value attributable to the risk being hedged.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies, that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

2 Basis of preparation (continued)

(e) New accounting standard adopted by the Bank

A number of new standards, amendments to standards and interpretations effective for annual periods beginning after 1 January 2017, have not been applied in preparing these financial statements. Management has assessed the impact of the new standards, amendments to standards and interpretations and amendments to published standards, and concluded that they are either not relevant to the Company or their impact is not material or is limited to the disclosures and presentation requirement in the financial statements.

3 Significant accounting policies

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

(a) Foreign currencies

Foreign exchange transactions are recorded at spot rates of exchange ruling at the date of transactions.

Monetary assets and liabilities denominated in foreign currency are translated to AED at rates ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into AED at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in profit or loss.

(b) Interest income and expense

Interest income and expense are recognised in the statement of profit or loss for all financial instruments measured at amortised cost using the effective interest method. The effective interest rate is a rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- interest on available for sale investment securities calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in same period as the hedged cash flows affect interest income / expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.
- Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at *'fair value through profit or loss' (FVTPL)* are presented in net income from other financial instruments at FVTPL in the statement of profit or loss and other comprehensive income.

3 Significant accounting policies (continued)

(c) Fee and commission (continued)

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

Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

Other fees and commission expenses relates mainly to transaction and service fees, which are expensed as the services are received.

(d) Other operating income

Other operating income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, and foreign exchange differences.

(d) 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 statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(e) Income tax expense

Income tax comprises current and deferred tax. Income tax expense is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on taxable income for the year using tax rates enacted at the reporting date by tax laws and regulations issued by the Emirates of Abu Dhabi, Dubai and Sharjah; and any adjustments to the tax payable in respect of the previous year.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted as at the reporting date, and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the statement of profit and loss together with the current or deferred gain or loss.

(f) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets designated at FVTPL) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

3 Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(ii) Classification

A financial instrument is any contract that gives rise to both a financial asset for the Bank and a financial liability or equity instrument for another party or vice versa. All assets and liabilities in the statement of financial position are financial instruments, except property and equipment, capital work in progress, intangible assets, prepayments and advance receipts and provision for staff terminal

Financial instruments are categorised as follows:

- *Financial assets at fair value through profit or loss "FVTPL":* This category has two sub-categories:
  - Financial assets and liabilities held for trading. A financial asset or liability is classified as held for trading if acquired principally for the purpose of selling in the short term, or forms part of a portfolio of financial instruments which are managed together and for which there is evidence of short-term profit taking or is a derivative (excluding qualifying hedging relationships).
  - Designated at FVTPL. Financial assets and liabilities may be designated at FCTPL when:
    - The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis (for example, the Bank may designate certain fixed rate loans and receivables that are managed with derivative interest rate swaps)
    - A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis (for example, the Group may designate issued debt to fund a portfolio of trading assets and liabilities that are all managed on a fair value basis)
    - The assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately
- *Loans and advances* are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to the borrower with no intention of trading the receivable.
- *Held-to-maturity "HTM" assets* are non-derivative financial assets with fixed or determinable payments and fixed maturities where the Bank has the positive intent and ability to hold to maturity. Where the Bank sells other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

  Available-for-sale "AFS" assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and advances, or (b) held-to-maturity, or (c) financial assets at fair value through profit or loss.

(iii) Measurement

A financial asset or financial liability is initially recognised at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition all FVPL instruments and available-for-sale assets are measured at fair value.

All non-trading financial assets, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses.

Standard Chartered Bank - UAE Branches

Notes (continued)

3 Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position or paid to transfer a net short position for a particular risk exposure. Those portfolio level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

(vi) Fair value hierarchy

The basis of fair value hierarchy along with the enhanced disclosures, are set out in note 30 (b).

3 Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(vii) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of FVPL instruments are recognised directly in the statement of profit or loss. Gains and losses arising from a change in the fair value of available-for-sale securities, whose fair value has not been hedged, are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the statement of profit or loss for the period.

(viii) Identification and measurement of impairment

The Bank assesses at each reporting date whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows relating to the asset that can be reliably estimated.

The Bank considers evidence of impairment at both individual asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment.

In assessing collective impairment, the Bank uses a statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the financial assets’ carrying amount and the present value of estimated future cash flows discounted at the financial assets’ original effective interest rate. Losses are recognised in the statement of profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

3 Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value, less any impairment loss recognised previously in the statement of profit or loss, out of other comprehensive income to the statement of profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the statement of profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(ix) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to offset the amounts and intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activities.

(x) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. If substantially all the risks and rewards have been neither retained nor transferred and the Bank has retained control, the assets continue to be recognised to the extent of the Bank's continuing involvement. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

The Bank also derecognises certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

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

3 Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(xi) Designation at fair value through profit or loss (FVTPL)

The Bank designates financial assets and liabilities at FVTPL in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; and
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

(g) Derivatives held for risk management purposes

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains recognised in profit and loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income).

Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond held, are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit and loss. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

3 Significant accounting policies (continued)

(g) Derivatives held for risk management purposes (continued)

Fair value hedges

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in the statement of profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedge item for which the effective interest method is used is amortised to the statement of profit or loss as part of the recalculated effective interest rate over its remaining life.

Cash flow hedges

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect the statement of profit or loss, the effective portion of changes in the fair value of the derivative are recognised in other comprehensive income. The amount recognised in other comprehensive income is reclassified to the statement of profit or loss as reclassification adjustment in the same period as the hedged cash flows affect the statement of income under the same line item in the statement of profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the statement of profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued prospectively and the amount recognised in other comprehensive income remains therein until the forecast transaction affects the statement of profit or loss. If the forecast transactions are no longer expected to occur, then hedge accounting is discontinued and the balance in other comprehensive income is recognised immediately in the statement of profit or loss.

(h) Cash and cash equivalents

‘Cash and cash equivalents’ include notes and cash in hand, current accounts, unrestricted balances held with Central Bank of UAE, certificate of deposits of the Central Bank of UAE, due from and due to banks, due to and due from Head office and other branches with original maturities of three months or less from the date of initial recognition, and are used for the purpose of meeting of short-term commitments and with insginificant credit risk.

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

(i) Loans and advances

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

Loans and advances are initially measured at fair value plus incremental direct transaction cost and subsequently measured at their amortised cost using the effective interest method.

When the Bank chooses to designate the loans and advances as measured at fair value through profit and loss as described in note 3 (f) (xi), they are measured at fair value with fair value changes recognised immediately in statement of profit or loss.

3 Significant accounting policies (continued)

(j) Investment securities

Investment securities are initially measured at fair value, in case of investment securities not at fair value through profit or loss, plus incremental direct transaction costs, and subsequently accounted for depending on their classification as either fair value through profit or loss, available for sale, or loans and receivables:

(i) Fair value through profit or loss

Investments held for trading purposes are classified as investments at fair value through profit or loss, with fair value changes recognised immediately in the statement of profit or loss.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Available-for-sale investments comprises of debt securities. All other available-for-sale investments are carried at fair value.

Interest income is recognised in the statement of profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the statement of profit or loss.

Other fair value changes are recognised directly in the other comprehensive income and presented in the fair value reserve within equity until the investment is sold or impaired and the balance in the other comprehensive income is recognised in the statement of profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss

(k) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset’s carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss.

Depreciation is recognised in the statement of profit or loss on a straight-line basis over the estimated useful lives of items of property and equipment, principally between 3 – 10 years. Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount with a charge to the statement of profit or loss. Gains and losses on disposal are recognised in the statement of profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in the statement of profit or loss as incurred.

(l) Intangible assets

Intangible assets represent software acquired by the Bank and are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embedded in the specific assets to which it relates. All other expenditure is expensed as incurred.

3 Significant accounting policies (continued)

(l) Intangible assets (continued)

Amortisation is recognised in the statement of profit or loss on a straight-line basis over the estimated useful life of the intangible assets, from the date that it is available for use. The estimated useful life of intangible assets is 3 years. Where the carrying value of intangible assets is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

(m) Impairment of non-financial assets

The carrying amount of the Bank’s non financial assets, other than deferred tax assets, is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the statement of profit or loss.

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Deposits and subordinated liabilities

Deposits and subordinated liabilities are the Bank’s sources of debt funding. Deposits and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(o) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(p) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs as a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. ‘Loan commitments’ are firm commitments to provide credit under pre-specified terms and conditions.

3 Significant accounting policies (continued)

(p) Financial guarantees and loan commitments (continued)

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable).

(q) Staff terminal benefits

Defined benefit plan

In compliance with the UAE Labour Law, the Bank has a termination gratuity benefit scheme covering its expatriate employees who have been employed with the Bank for more than one year. This is an unfunded defined benefit scheme.

The Bank provides for staff terminal benefits based on an estimation of the amount of future benefit that employees have earned in return for their service until their retirement. This calculation is performed based on the projected unit credit method.

Remeasurements of the defined benefit liability, which results in actuarial gains and losses are recognised immediately in other comprehensive income. The Bank determines the interest expense on the defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, taking into account any changes in the defined benefit liability during the period as a result of contributions and benefit payments. Interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The Bank's international officers are covered under the Standard Chartered Group Pension Scheme. The amount is recharged to the Bank by the respective branch or subsidiary of the Group.

Defined contribution plan

UAE national employees are covered under the Pensions and Social Law in the UAE such that contributions from the Bank and the employees are made to the General Pension and Social Security Authority on a monthly basis. The Bank has no liability to fund the plan other than the monthly contributions paid.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of profit or loss when they are due.

(r) New standards and interpretations not yet effective

The following new standards are effective for periods beginning on or after 1 January 2018 and have not been applied in preparing these consolidated fi nancial statements:

3 Significant accounting policies (continued)

(r) New standards and interpretations not yet effective (continued)

(i) *IFRS 15 Revenue from contracts with customers (effective date 01 January 2018)*

The standard provides a more detailed principles-based approach for income recognition than the current standard IAS 18 Revenue, with revenue being recognised as or when promised services are transferred to customers. The standard applies to ‘fees and commission income’ but not to financial instruments or lease contracts. IFRS 15 will not have a material impact on the Banks' financial statements and there will not be an adjustment to retained earnings in respect of adoption.

(ii) *IFRS 16 Leases (effective date 01 January 2019)*

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The impact of the standard is currently being assessed and it is not yet practicable to quantify the effect of IFRS 16 on these financial statements. The Bank will have a balance sheet increase in lease liabilities and right-of-use assets on adoption of IFRS 16.

(iii) *IFRS 9 Financial Instruments (effective date 01 January 2018)*

IFRS 9 was issued in July 2014 and has an effective date of 1 January 2018. In October 2017, the IASB published an amendment to IFRS 9, Prepayment Features with Negative Compensation, which is effective from 1 January 2019, with earlier application permitted.

The amendment amends the existing requirements regarding termination rights in order to allow measurement at amortised cost (or fair value through OCI) even in the case of negative compensation payments. This is consistent with Management’s treatment of these clauses.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement, introducing new requirements for the classification and measurement of financial instruments, the recognition and measurement of credit impairment provisions, and providing for a simplified approach to hedge accounting. The Bank has elected to continue hedge accounting in line with the IAS 39 requirements and has not therefore applied the IFRS 9 hedging requirements. The Bank will, however, adopt these revised disclosures set out in IFRS 7, which includes those relating to hedge accounting. The changes in measurement arising on initial application of IFRS 9 will be incorporated through an adjustment to the opening reserves and retained earnings position as at 1 January 2018.

Although IFRS 9 will be retrospectively applied, the Bank is only permitted to restate comparatives if, and only if, it is possible without the use of hindsight.

The Bank does not consider it possible to restate comparatives for impairment without the use of hindsight.

3 Significant accounting policies (continued)

(r) New standards and interpretations not yet effective (continued)

(iii) *IFRS 9 Financial Instruments (continued)*

Implementation Program

Standard Chartered Bank ("the Group") has run a centrally managed IFRS 9 program, jointly led by Risk and Finance, which also included business functions and subject matter experts on methodology, data sourcing and modelling and technology. The Group's implementation of IFRS 9 has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements of IFRS 9 and developing an impairment methodology to support the calculation of the Expected Credit Loss allowance. This exercise done by the Group covers all the locations where IFRS is effective from 1 January 2018 and thus also covers the UAE Branches. The entire accounting policy applicable to the Group is also applicable to the UAE Branches unless otherwise stated.

Classification and measurement of financial instruments

IAS 39

There are four asset classifications under IAS 39: fair value through profit or loss (FVTPL), incorporating trading and instruments designated at FVTPL; loans and receivables; held to maturity; and available-for-sale (AFS). The classification of assets into these categories was determined based on a mix of management intent and product characteristics. Only the AFS category has no restrictions on classification.

In respect of hybrid financial assets, the embedded derivative component may be separated and measured at fair value, unless closely related to the host contract. If this is not possible, the entire instrument must be designated at FVTPL. Other instruments may be designated at FVTPL if they are managed on a fair value basis, or where the designation would eliminate or significantly reduce an accounting mismatch.

IFRS 9

There are three measurement classifications under IFRS 9: amortised cost, fair value through profit or loss (FVTPL) and, for financial assets, fair value through other comprehensive income (FVOCI). The existing IAS 39 financial asset categories are removed. Financial assets are classified into these categories based on the business model within which they are held, and their contractual cash flow characteristics.

The business model reflects how groups of financial assets are managed to achieve a particular business objective. Financial assets can only be held at amortised cost if the instruments are held in order to collect the contractual cash flows ('hold to collect'), and where those contractual cash flows are solely payments of principal and interest (SPPI). Principal represents the fair value of the instrument at the time of initial recognition.

Interest in this context represents compensation for the time value of money and associated credit risks together with compensation for other risks and costs consistent with a basic lending arrangement and a profit margin. This requires an assessment at initial recognition of the contractual terms to determine whether it contains a term that could change the timing or amount of cash flows in a way that is inconsistent with the SPPI criteria.

Assets may be sold out of 'hold to collect' portfolios where there is an increase in credit risk. Disposals for other reasons are permitted but such sales should be insignificant in value or infrequent in nature.

3 Significant accounting policies (continued)

(r) New standards and interpretations not yet effective (continued)

(iii) *IFRS 9 Financial Instruments (continued)*

Classification and measurement of financial instruments (continued)

Financial asset debt instruments where the business model objectives are achieved by collecting the contractual cash flows and by selling the assets (‘hold to collect and sell’) and that have SPPI cash flows are held at FVOCI, with unrealised gains or losses deferred in reserves until the asset is derecognised. In certain circumstances, non-trading equity instruments can be irrevocably designated as FVOCI but both unrealised and realised gains or losses are recognised in reserves and no amounts other than dividends received are recognised in the income statement.

All other financial assets will mandatorily be held at FVTPL.

Financial assets may be designated at FVTPL only if doing so eliminates or reduces an accounting mismatch.

There has been no change to the requirements in respect of the classification and measurement of financial liabilities. The Bank adopted the changes related to the presentation of fair value changes on own credit in its 2016 financial statements. The derecognition requirements have also been carried forward unchanged from IAS 39.

Where the contractual terms of financial assets are modified, and that modification does not result in derecognition, a modification gain or loss is recognised in the income statement and the gross carrying amount of the asset adjusted accordingly.

Impairment of financial assets not held at FVTPL

IAS-39

For debt instruments held at amortised cost or available-for-sale, specific loss allowances are only recognised where there is objective evidence of impairment as a result of one or more loss events occurring after the initial recognition of the instrument. This includes losses arising from credit related modifications to the contractual terms (such as forbearance).

For debt instruments held at amortised cost, where losses are known, by experience, to have been incurred but have not been separately identified, a portfolio impairment provision (PIP) is recognised. The calculation of PIP is based on regulatory expected loss models, after adjustments made to align the calculation with IFRS, together with adjustments to take into account factors not adequately covered in the underlying models.

A PIP is not, however, recognised for available-for-sale instruments. Impairment loss allowances are also not recognised for loan commitments and financial guarantees.

Where there is objective evidence of impairment for available-for-sale debt instruments, the entire unrealised loss held in reserves is transferred to the income statement and recognised as impairment

See note 3 (m) for further details on the accounting policy.

IFRS-9

Under IFRS 9 the measurement of loan loss provisions will move from the IAS39 incurred loss model to a forward-looking Expected Credit Loss (ECL) model. This model will be applied to all financial assets measured at amortised cost and FVOCI, lease receivables, and certain loan commitments and financial guarantees. ECL will be recognised regardless of whether a credit loss has been incurred.

3 Significant accounting policies (continued)

(r) New standards and interpretations not yet effective (continued)

(iii) *IFRS 9 Financial Instruments (continued)*

Impairment of financial assets not held at FVTPL (continued)

To drive ECL, the Bank primarily uses sophisticated credit models that utilise the probability of default (PD), loss given default (LGD) and exposure at default (EAD) metrics, discounted using the effective interest rate. For lower value, less complex portfolios in Retail Banking, the Bank uses roll rate or loss rate models. Expected credit losses are recognised for all financial debt instruments, loan commitments and financial guarantees that are classified as ‘hold to collect’/‘hold to collect and sell’ and have cash flows that are solely payments of principal and interest. Expected credit losses are not recognised for equity instruments designated at FVOCI.

An ECL allowance is recognised at the time of initial recognition for all financial instruments that are in the scope of ECL in respect of default events that may occur over the next 12 months (so-called ‘stage 1 assets’ with allowances equivalent to 12-months expected credit losses). ECL continues to be determined on this basis until there is either a significant increase in credit risk (SICR) or the asset becomes credit impaired.

If a financial asset (or portfolio of financial assets) experiences an SICR since initial recognition, an ECL allowance is recognised for default events that may occur over the lifetime of the asset (so-called ‘stage 2 assets’ with loss allowances equivalent to lifetime expected credit losses). SICR is assessed in the context of an increase in the risk of a default occurring over the remaining life of the financial instrument when compared with that expected at the time of initial recognition for the same period. It is not assessed in the context of an increase in the expected credit loss.

The Bank uses a number of qualitative and quantitative measures in assessing SICR. Quantitative measures relate to the relative and absolute changes in the lifetime PD compared with those expected at initial recognition. Qualitative factors include placement of loans on non-purely precautionary early alert, classification as higher risk (CG 12) or where principal and/or interest payments are 30 days or more past due.

An asset is only considered credit impaired, and lifetime expected credit losses recognised, if there is observed objective evidence of impairment. These factors are similar to the indicators of objective evidence of impairment under IAS 39. This includes, amongst other factors, assets in default, experiencing significant financial difficulty or subject to forbearance actions credit-impaired (so-called ‘stage 3 assets’).

The definition of default is aligned to the regulatory definition of the Central Bank of UAE and considered to occur when an asset is 90 days or more past due on contractual payments of principal and/or interest or is considered unlikely to pay without realisation of any collateral held.

To the extent that assets are credit-impaired at the point of initial recognition, they are classified as purchased or originated credit-impaired. An expected credit loss allowance is not recognised at initial recognition. Any changes in lifetime expected losses after initial recognition are charged or credited to the income statement through ‘Impairment’.

The measurement of expected credit losses across all stages is required to reflect an unbiased and probability weighted amount that is determined by evaluating a range of reasonably possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

3 Significant accounting policies (continued)

(r) New standards and interpretations not yet effective (continued)

(iii) *IFRS 9 Financial Instruments (continued)*

Impairment of financial assets not held at FVTPL (continued)

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. The Bank's uses a Monte Carlo approach to simulate a set of 50 scenarios around the Bank’s central forecast to incorporate the potential non-linearity.

The period considered when measuring expected credit loss is the shorter of the expected life and the contractual term of the financial asset. The expected life may be impacted by prepayments and the maximum contractual term by extension options. For certain revolving portfolios, including credit cards, the expected life is assessed over the period that the Bank is exposed to credit risk (which is based on the length of time it takes for credit facilities to be withdrawn) rather than the contractual term.

For stage 3 financial assets, the determination of lifetime expected credit losses will be similar to the IAS 39 approach; for example, loan loss allowances within Corporate & Institutional Banking will be based on the present value of estimated future cash flows for individual clients. The estimated cash flows will, however, be based on a probability range of scenarios. Where the cash flows include realisable collateral, the values used will incorporate forward-looking information.

Where the contractual terms of a financial asset have been modified due to financial difficulties (forbearance, for example) and the asset has not been derecognised, a modification loss is recognised as part of ‘Impairment’ in the income statement. The loss represents the difference between the present value of the cash flows before and after the modification, discounted at the original effective interest rate. Unlike IAS 39, however, no loss allowance is recorded in the balance sheet, as the modification loss is offset against the gross carrying amount of the asset. Modifications for other reasons are accounted for in a similar way, except the modification gain or loss will be reported as part of income.

For assets measured at amortised cost, the balance sheet amount reflects the gross asset less the allowance for ECL.

For debt instruments held at FVOCI, the balance sheet amount reflects the instrument’s fair value, with the expected credit loss allowance held as a separate reserve within other comprehensive income.

ECL allowances on off-balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise they will be reported against the drawn component.

Transition Impact

The Bank estimates the IFRS-9 transition impact will result in no additional charge to net equity position as at 01 January 2018.

The Bank continues to refine its expected credit loss models and embed its operational process which may change the actual impact on adoption.

4 Critical accounting estimates, and judgments in applying accounting policies

The Bank makes assumptions that affect the reported amounts of the assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Fair value of derivatives

The fair value of derivatives that are not quoted in active markets are determined using valuation techniques. Valuation techniques include using arm’s length transactions between knowledgeable, willing parties (if available), reference to the current market value of other instruments that are substantially the same and discounted cash flow analyses. To the extent it is practical, observable data is applied in the valuation techniques, however areas such as credit risk (both own and counterparty), volatilities and correlation requires management to make assumptions. Changes in assumptions relating to these factors could affect the reported fair value of derivatives.

(ii) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a periodic basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual loan or from a portfolio of loans before the decrease can be identified with an individual loan in the portfolio.

For individual loans, specific provisions are estimated based on previous experience considering the credit rating of the underlying customer and late payment of instalments, interest and penalties.

For portfolio impairment provisions, evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of profit and loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit and loss.

(iii) Impairment losses on investment securities

The Bank evaluates its investments securities individually for impairment based upon management’s best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty’s financial situation. Judgment is also exercised while reviewing factors indicating and determining the objective evidence of impairment in respect of investment securities.

4 Critical accounting estimates, and judgments in applying accounting policies (continued)

(iv) Income taxes

The Bank is subject to income tax in the UAE. Estimates are required in determining the provision for income taxes. There are several transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The recoverability of the Bank’s deferred tax assets is based on management’s judgment of the availability of future taxable profits against which the deferred tax assets will be utilised.

(v) Classification of financial assets

The classification and measurement of the financial assets depends on the Bank’s business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Bank is satisfied that the investment in securities are appropriately classified and measured.

Financial assets that are measured at amortised cost are those assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

Financial assets that are measured at Available for sale are investments in quoted bonds that are not held to benefit from changes in their fair value and are not held for trading. The Bank believes that designating these instruments at Available for sale provides a more meaningful presentation of its medium to long-term interest in its investments than holding the investments at fair value through profit and loss.

Financial assets that are measured at Held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investment securities to maturity. In the event the Bank fails to keep these investments to maturity other than for specific circumstances, such as selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available for sale and the Bank will be prevented from classifying investment securities as held-to-maturity for the current and the following two financial years unless one-off exempted circumstances.

(vi) Defined benefit plan

The Bank determines the cost of the unfunded defined benefits scheme using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and withdrawal rates.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

5 Cash and balances with the Central Bank of the UAE

	2017	2016
	AED 000	AED 000
Cash	**433,574**	540,371
Certificates of deposit of the Central Bank of the UAE	**3,419,303**	4,539,304
Regulatory cash reserve deposits (note 5.1)	**3,099,900**	3,119,285
Other balances with the Central Bank of UAE	**1,071,868**	134,842
	8,024,645	8,333,802

5.1 These deposits are not available for the Bank's day to day operations and are non-interest bearing. The Central Bank of the UAE, however, allows banks to overdraw up to the cash reserve balances, provided that at the end of the 7-day reporting period, the balance in the account should be positive on a cumulative basis.

6 Loans and advances to banks

	2017	2016
	AED 000	AED 000
Term loans	**404,028**	618,995
Nostro balances	**234,650**	208,469
Credit bills negotiated	**3,171,049**	1,824,127
	3,809,727	2,651,591
Allowance for impairment losses		
Specific impairment	**(894)**	(894)
Portfolio impairment	**(3,237)**	(2,230)
Total allowance for impairment losses	**(4,131)**	(3,124)
Net loans and advances to banks	**3,805,596**	2,648,467

7 Loans and advances to customers

	2017	2016
	AED 000	AED 000
Overdrafts	**1,441,156**	1,969,640
Term loans	**17,040,092**	16,735,998
Loans against trust receipts	**1,482,171**	1,379,600
Bills discounted	**1,550,727**	1,680,535
Others	**11,729,755**	11,472,508
Total gross loans and advances to customers	**33,243,901**	33,238,281
Allowance for impairment losses		
Specific impairment	**(2,416,676)**	(2,511,398)
Portfolio impairment	**(662,763)**	(657,770)
Total allowance for impairment losses	**(3,079,439)**	(3,169,168)
Net loans and advances to customers	**30,164,462**	30,069,113

7 Loans and advances to customers (continued)

The movement in the allowance for impairment losses during the year is as follows:

	2017	2016
	AED 000	AED 000
Balance at 1 January	**(3,169,168)**	(2,789,926)
Net provision made during the year	**(497,573)**	(948,192)
Unwinding of discount provision	**16,861**	25,304
Amounts written off during the year	**570,441**	543,646
Balance at 31 December	**(3,079,439)**	(3,169,168)

The charge to the statement of profit and loss for impairment losses consists of the following:

	2017	2016
	AED 000	AED 000
Provision for loans and advances to customers	**497,573**	948,192
Provision for loans and advances to banks	**1,007**	1,453
Provision for contingent liabilities	**76,996**	-
Total provision	**575,576**	949,645
Recovery of debts previously written off	**(48,571)**	(37,811)
	527,005	911,834

8 Investment securities

	2017	2016
	AED 000	AED 000
Available-for-sale		
Balance at 1 January	**5,642,245**	2,962,438
Exchange translation differences	**247**	(72)
Additions	**3,546,437**	5,868,654
Maturities and disposals	**(4,559,916)**	(3,159,998)
Changes in fair value (including the effect of fair value hedging)	**(8,528)**	(6,669)
Amortisation of discounts and premiums	**(14,673)**	(22,108)
Balance at 31 December	**4,605,812**	5,642,245

9 Property and equipment

	Premises and equipment AED 000	Other equipment AED 000	Total AED 000
2017			
Cost			
At 1 January 2017	22,210	27,554	49,764
Additions	13,815	6,223	20,038
Inter company transfers - net	-	(3)	(3)
Disposals / fully depreciated assets written off	(8,437)	(5,417)	(13,854)
At 31 December 2017	**27,588**	**28,357**	**55,945**
Accumulated depreciation			
At 1 January 2017	16,313	15,374	31,687
Charge for the year	4,378	5,413	9,791
Inter company transfers - net	-	(1)	(1)
Disposals / fully depreciated assets written off	(8,437)	(5,417)	(13,854)
At 31 December 2017	**12,254**	**15,369**	**27,623**
Net book value at 31 December 2017	**15,334**	**12,988**	**28,322**
2016			
Cost			
At 1 January 2016	21,908	32,033	53,941
Additions	2,649	3,492	6,141
Inter company transfers - net	(661)	65	(596)
Disposals / fully depreciated assets written off	(1,686)	(8,036)	(9,722)
At 31 December 2016	22,210	27,554	49,764
Accumulated depreciation			
At 1 January 2016	13,153	17,346	30,499
Charge for the year	4,846	5,925	10,771
Inter company transfers - net	-	65	65
Disposals / fully depreciated assets written off	(1,686)	(7,962)	(9,648)
At 31 December 2016	16,313	15,374	31,687
Net book value at 31 December 2016	5,897	12,180	18,077

10 Intangible assets

	2017 AED 000	2016 AED 000
Cost		
At 1 January	**24,943**	29,437
Additions	**1,509**	4,285
Inter company transfers	**6,538**	3,284
Disposals / fully amortised assets written off	**(166)**	(12,063)
At 31 December	**32,824**	24,943
Amortisation		
At 1 January	**8,665**	14,495
Charge for the year	**6,376**	6,233
Disposals / fully amortised assets written off	**(166)**	(12,063)
At 31 December	**14,875**	8,665
Net book value at 31 December	**17,949**	16,278

Intangible assets comprise computer software.

11 Other assets

	2017 AED 000	2016 AED 000
Accrued interest receivable	**169,970**	182,319
Fair value adjustments on interest rate related contracts	**212,955**	195,403
Fair value adjustments on foreign exchange related contracts	**735,836**	1,306,662
Fair value adjustments on commodities related contracts	**105,311**	149,068
Fair value adjustments on equity derivative contracts	**2,893**	1,456
Other receivables	**142,403**	384,371
Deferred tax asset (refer note 23.1)	**715,087**	707,597
	2,084,455	2,926,876

12 Due to banks

	2017 AED 000	2016 AED 000
Demand and call deposits	**786,557**	1,297,561
Time and other deposits	**171,479**	1,926,756
	958,036	3,224,317

13 Deposits from customers

	2017 AED 000	2016 AED 000
Demand and call deposits	**19,604,088**	18,106,737
Time deposits	**13,550,236**	15,073,279
Savings deposits	**3,648,669**	3,578,476
Other deposits	**256,409**	285,434
	37,059,402	37,043,926

Deposits from customers include AED 752 million (2016: AED NIL) in deposits received from central banks other than the Central Bank of the UAE.

14 Other liabilities

	2017 AED 000	2016 AED 000
Accrued interest payable	**67,085**	81,611
Fair value adjustments on interest rate related contracts	**230,881**	250,271
Fair value adjustments on foreign exchange related contracts	**716,227**	1,237,962
Fair value adjustments on commodities related contracts	**105,733**	151,388
Fair value adjustments on equity derivative contracts	**4,524**	4,637
Staff terminal benefits (refer notes 14.1 & 14.2)	**210,998**	191,006
Accrued expenses payable	**222,608**	246,498
Provision for taxation (refer note 23)	**-**	124,538
Provision for contingent liabilities	**94,761**	17,765
Others	**880,718**	757,326
	2,533,535	3,063,002

14 Other liabilities (continued)

14.1 Defined benefit plan

During 2017, the Bank reassessed the actuarial assumptions underlying its obligation under the defined benefit (gratuity) scheme in accordance with IAS 19.

Based on the actuarial computation, the obligation under the defined benefit scheme is AED 210.3 million (2016: AED 190.3 million). The actuarial loss for the year ended 31 December 2017 amounting to AED 4.9 million (2016: actuarial loss of AED 2.5 million) has been recognised directly in other comprehensive income under 'Actuarial loss or gain' net of deferred tax liability of AED 0.9 million (2016: AED 0.5 million) and is presented in other comprehensive income and the statement of changes in equity.

The movement in the defined benefit obligation is shown below:

	2017	2016
	AED 000	AED 000
Balance at 1 January	**190,302**	171,304
Current service and interest cost	**54,010**	50,920
Settlements	**(38,910)**	(34,431)
Actuarial loss recognised in other comprehensive income	**4,902**	2,509
Balance at 31 December	**210,304**	190,302

The obligation has been computed based on the following assumptions:

	2017	2016
Discount rate	**3.0% p.a.**	4.4% p.a.
Expected increase in salary	**4.0% p.a.**	4.0% p.a.
Normal retirement date (both male and female)	**60 years**	60 years

14.2 Defined contribution plan

The movement in the defined contribution plan is shown below:

	2017	2016
	AED 000	AED 000
Balance at 1 January	**704**	741
Current service costs	**4,350**	5,322
Contribution paid to General Pension and Social Security Authority	**(4,360)**	(5,359)
Balance at 31 December	**694**	704
Total staff terminal benefits	**210,998**	191,006

15 Subordinated loan

This represents tier two capital injected by the Head Office in order to meet the local regulatory capital adequacy requirements. The details of various subordinated loans obtained from the Head Office are as follows:

2017

Currency	**Face amount USD 000**	**Face amount AED 000**	**Maturity date**	**Interest rate**
USD	170,000	624,407	23 December 2023	3 month USD Libor plus 250 basis points
		624,407		

2016

Currency	Face amount USD 000	Face amount AED 000	Maturity date	Interest rate
USD	100,000	367,281	26 November 2020	3 month USD Libor plus 300 basis points
USD	85,000	312,189	26 November 2020	3 month USD Libor plus 300 basis points
USD	75,000	275,461	31 October 2022	3 month USD Libor plus 305 basis points
USD	80,000	293,825	31 October 2022	3 month USD Libor plus 305 basis points
USD	170,000	624,377	23 December 2023	3 month USD Libor plus 250 basis points
		1,873,133		

During the year, the Bank has made an early repayment to Head Office of the 4 subordinated deals amounting to AED 1,249 million, after getting relevant regulatory approvals by Central Bank of UAE..

16 Head Office assigned capital

This represents the amount received from the Head Office as Head Office assigned capital for the UAE branches of the Bank in accordance with the article 80 of the Union Law No. 10 of 1980 as amended . During 2017, the Head Office has injected an additional capital of AED 1,249 million (2016: Nil).

17 Statutory reserve

In accordance with Article 82 of the Union Law of 1980, banks need to allocate a minimum of 10% of their annual net profits for the establishment of a statutory reserve until such reserve equals 50% of the assigned capital of the Bank. The Bank has accordingly made such transfer during the year (2016: NIL due to net loss).

18 Interest income

	2017 AED 000	2016 AED 000
On loans and advances to financial institutions / banks	**60,272**	39,074
On loans and advances to customers	**1,451,948**	1,616,289
On investments in securities	**108,599**	100,688
On derivatives held for risk management / Other trading	**8,345**	1,334
	1,629,164	1,757,385

19 Interest expense

	2017 AED 000	2016 AED 000
On deposits from banks and financial institutions	**40,045**	31,965
On deposits from customers	**235,674**	237,896
On derivatives held for risk management	**270**	274
On subordinated loan	**68,545**	66,121
	344,534	336,256

20 Fee and commission income

	2017 AED 000	2016 AED 000
Loan and other fees	**423,742**	378,538
Commission	**307,372**	274,972
	731,114	653,510
Fee expense:		
Fee and commission expense	**237,529**	239,245

21 Other operating income

	2017 AED 000	2016 AED 000
Foreign exchange trading	**137,757**	274,726
Investment securities	**1,196**	2,965
Other trading	**61,605**	145,984
Others	**(4,512)**	(273)
	196,046	423,402

22 Operating Expenses

22.1 Personnel expenses

	2017 AED 000	2016 AED 000
Personnel Expenses include the following:		
Staff salaries and allowances	**569,048**	676,268
Pension and retirement benefits	**58,373**	56,259
	627,421	**732,527**

22.2 Administrative and general expenses

	2017 AED 000	2016 AED 000
Head office administrative expenses	221,630	155,688
Premises rental	53,615	62,300
Other premises and equipment cost	38,435	39,916
Other general and administrative cost	448,587	546,946
	762,267	804,850

Notes (continued)

23 Taxation

Provision for taxation is made in accordance with regulations enacted in the Emirates of Abu Dhabi, Dubai and Sharjah relating to the computation of tax payable.

The Bank's charge, and effective tax rate in future years could be affected by several factors including structuring of businesses, changes in the tax legislation and tax rates and resolution of uncertain tax positions.

	2017	2016
	AED 000	AED 000
Movement in tax provision		
Balance at 1 January	**124,538**	15,374
Taxes paid	**(143,723)**	(15,374)
Current tax expense - through profit and loss	**19,185**	120,913
- through equity (prior year adjustment)	**-**	3,625
Balance at 31 December	**-**	124,538

	2017	2016
	AED 000	AED 000
Current tax expense		
Current year	**-**	-
Adjustments in respect of prior periods	**19,185**	120,913
	19,185	120,913

	2017	2016
	AED 000	AED 000
Deferred tax		
Origination and reversal of temporary differences	**11,455**	(19,686)
Adjustments in respect of prior periods	**(17,112)**	(120,001)
	(5,657)	(139,687)
Total income tax expense / (credit)	**13,528**	(18,774)

The tax charge for the year is higher (2016: lower) than the charge at the 20% rate of corporate income tax in the Emirates of Abu Dhabi, Dubai, and Sharjah. The differences are explained below:

	2017	2016
	AED 000	AED 000
Profit / (Loss) before income tax	**41,401**	(207,419)
Income tax at applicable tax rate	**8,280**	(41,484)
Tax exempt income		
Non-deductible expenses	**(567)**	21,798
Additional tax assessed for prior year	**19,185**	120,913
Recognition of deferred tax arising from items relating to prior year	**(17,112)**	(120,001)
Other	**3,742**	-
Total income tax expense / (credit)	**13,528**	(18,774)
Effective tax rate	**32.68%**	9.05%

Standard Chartered Bank - UAE Branches

Notes (continued)

23 Taxation (continued)

23.1 Deferred tax

The movement in deferred tax during the year is as follows:

	At 1 January 2017 AED 000	**Other Adjustment AED 000**	**(Charge) / Credit to profit AED 000**	**(Charge) / credit to other comprehensive income AED 000**	**At 31 December 2017 AED 000**
Deferred taxation comprises:					
Impairment provision on loans and advances to customers / banks	584,377	-	(14,114)	-	570,263
Mark to market reserve on available for sale assets	1,809	-	-	307	2,116
Cash flow hedges reserve	625	-	-	546	1,171
Actuarial (gain) / loss on defined benefit schemes	502	-	-	980	1,482
Tax loss carry-forwards	120,284	-	19,771	-	140,055
Other temporary differences	-	-	-	-	-
	707,597	**-**	**5,657**	**1,833**	**715,087**

	At 1 January 2016 AED 000	Other Adjustment AED 000	(Charge) / credit to profit AED 000	(Charge) / credit to other comprehensive income AED 000	At 31 December 2016 AED 000
Deferred taxation comprises:					
Impairment provision on loans and advances to customers / banks	419,681	-	164,696	-	584,377
Mark to market reserve on available for sale assets	1,972	-	-	(163)	1,809
Cash flow hedges reserve	(196)	-	-	821	625
Actuarial (gain) / loss on defined benefit schemes	(3,625)	3,625	-	502	502
Tax loss carry-forwards	127,224	-	(6,940)	-	120,284
Other temporary differences	18,069	-	(18,069)	-	-
	563,125	3,625	139,687	1,160	707,597

Deferred tax asset on tax loss carry-forwards

The recoverability of the Bank's deferred tax assets is based on the Bank’s judgment of the availability of future taxable profits against which the deferred tax assets will be utilised. The Bank's forecast show that the tax losses are expected to be fully utilised over a period of 2 years in the respective emirates, after which they will expire.

24 Commitments and contingent liabilities

Commitments are where the Bank has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees or letters of credit and the Bank has not made payments at the balance sheet date, those instruments are included in these financial statement as commitments.

Where the Bank undertakes to make a payment on behalf of its customers for guarantees issued such as for performance bonds or as irrevocable letters of credit as part of the Bank's Transaction Banking business for which an obligation to make a payment has not arisen at the reporting date those are included in these financial statements as contingent liabilities. It also includes revocable letters of credit and bonds issued on behalf of customers to customs offi cials, for bids or offers and as shipping guarantees.

At 31 December, the Bank's commitments and contingent liabilities were as follows:

	2017	2016
	AED 000	AED 000
Letters of credit	**2,047,522**	2,588,698
Guarantees	**17,669,451**	16,354,583
Undrawn commitments to extend credit	**1,316,678**	1,992,529
	21,033,651	20,935,810

The commitments and contingent liabilities above may expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

Derivative financial instruments are disclosed under note 31.

The Bank receives legal claims against it arising in the normal course of business. The Bank considers none of these matters as material either individually or in aggregate. Where appropriate, the Bank recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation.

The Bank seeks to comply with all applicable laws and regulations, but may be subject to regulatory actions and investigations from time to time, the outcome of which are generally difficult to predict and can be material.

The Bank holds a provision of AED 94.8 million (2016: AED 17.8 million) in respect of certain commitments and contingent liabilities.

25 Cash and cash equivalents

	2017	2016
	AED 000	AED 000
Cash and balances with the Central Bank of UAE maturing within three months	**5,705,342**	3,794,498
Loans and advances to banks maturing within three months	**961,376**	1,074,957
Due from the Head Office and branches maturing within three months	**3,167,282**	3,537,879
Deposits from banks maturing within three months	**(870,017)**	(3,154,500)
Due to the Head Office and branches maturing within three months	**(3,163,794)**	(1,477,226)
Cash and cash equivalents in the statement of cash flow	**5,800,189**	3,775,608

26 Hedge accounting

Cash flow hedges of interest rate risk

The Bank's policy is to hedge its exposure to interest rate risk on a case by case basis (refer note 27 for details on risk management).

Interest rate swaps are used to hedge cash flow exposures on floating rate interest-earning assets originated by the Bank by changing interest received thereon to fixed rates.

The table below shows the summary of transactions of interest rate swaps used to hedge cash flow risk and the related fair values. The effectiveness of cash flow hedges has been tested and found to be effective.

Description of the hedged item	Notional value AED 000	Positive fair value AED 000	Negative fair value AED 000	Net fair value asset / (liability) AED 000	Fair value net of deferred tax AED 000
2017					
Loans and receivables	467,299	-	5,855	(5,855)	(4,684)
	467,299	**-**	**5,855**	**(5,855)**	**(4,684)**
2016					
Loans and receivables	1,018,203	6,294	9,417	(3,123)	(2,499)
	1,018,203	6,294	9,417	(3,123)	(2,499)

Net fair value asset / (liability) includes net negative fair value of AED 2.12 million (2016: net positive fair value of AED 6.29 million) related to terminated cash flow hedges. This amount will be reclassified from other comprehensive income to the statement of profit or loss when the forecast transactions affect the statement of profit or loss.

The following table indicates the swaps held as cash flow hedges and their weighted-average interest rates. Average floating rates are based on rates implied in the yield curve at 31 December 2017. These may change significantly, thereby affecting future cash flows.

	2017	2016
Average pay rate (%)	**1.46**	0.97
Average receive rate (%)	**2.01**	1.30

The interest rate swaps have an average remaining life of 32 months (2016: 30 months).

Fair value hedges

The Bank uses interest rate swaps to hedge its exposure to changes in the fair value of its fixed rate loans and advances, bonds and deposits attributable to changes in market interest rates. Interest rate swaps are matched to specific issuances of fixed rate notes or loans.

The fair value of derivatives designated as fair value hedges are as below:

Description of the hedged item	2017			2016		
	Notional value AED 000	Positive fair value AED 000	Negative fair value AED 000	Notional value AED 000	Positive fair value AED 000	Negative fair value AED 000
Fixed rate bond	**1,496,194**	**4,138**	**-**	730,889	961	1,971
Fixed rate deposit	**-**	**-**	**-**	-	-	-
Fixed rate loan	**2,292,435**	**3,063**	**13,630**	2,604,794	2,005	12,326
Fixed rate UAE Central Bank CD	**71,623**	**663**	**-**	124,861	-	681
	3,860,252	**7,864**	**13,630**	**3,460,544**	**2,966**	**14,978**

27 Financial risk management

27.1 Introduction and overview

The Bank has exposure to the following material risks from its use of financial instruments and operations:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Reputational risk
- Information and Cyber Security risk risk
- Capital risk

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

27.2 Enterprise Risk management framework

The Enterprise Risk Management Framework ("ERMF") sets out the Bank's approach to risk management and the control framework within which risks are managed with the objective of maximising risk-adjusted returns while remaining within the risk appetite. The ERMF establishes common principles and standards for the management and control of all risks, and to inform behaviour across the organisation and provides a shared framework and language to improve awareness of risk management processes and provides clear accountability and responsibility for risk management.

The core components of the ERMF include our risk principles and standards, principal risk types, definitions of roles and responsibilities and governance structure. In 2017 we completed a thorough review of our ERMF which included changes in our Principal Risk Types and strengthening of the three lines of defence.

Risk culture

The Bank’s risk culture provides guiding principles for the behaviours expected from our people when managing risk. The Board has approved a risk culture statement that encourages the following behaviours and outcomes:

- An enterprise level ability to identify and assess current and future risks, openly discuss these and take prompt actions.
- The highest level of integrity by being transparent and proactive in disclosing and managing all types of risks.
- A constructive and collaborative approach in providing oversight and challenge, and taking decisions in a timely manner.
- Everyone to be accountable for their decisions and feel safe using their judgement to make these considered decisions.

Strategic risk management

The Bank approaches strategic risk management by:

- Including in The strategy review process an impact analysis on The risk profile from The growth plans, strategic initiatives and business model vulnerabilities with The aim of proactively identifying and managing new risks or existing risks that need to be reprioritised.
- Including in the strategy review process a confirmation that growth plans and strategic initiatives can be delivered within the approved Risk Appetite and/or proposing additional Risk Appetite for Board consideration
- Validating the Corporate Plan against the Risk Appetite Statement to the Board. The Board approves the strategy review and the five year Corporate Plan with a confirmation from the Group Chief Risk Officer that it is aligned with the Enterprise Risk Management Framework and the Group Risk Appetite Statement where projections allow.

27 Financial risk management (continued)

27.2 Risk management framework (continued)

Risk Governance

The Country Risk Committee (CRC) is responsible for the management of all risks other than those managed by the Asset & Liability Committee (ALCO). The CRC is responsible for the oversight of credit risk, country cross-border risk, market risk, operational risk, pension risk and reputational risk. The ALCO is responsible for the management of capital and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy, structural foreign exchange and interest rate risk. The CRC is chaired by the Country Chief Risk Officer and the ALCO is chaired by the Chief Executive Officer. The Country Chief Risk Officer directly manages a Risk function that is separate and independent from the origination, trading and sales functions of the businesses.

The Senior Credit Officers are responsible for credit risk in the segments of Corporate & Institutional Banking (CIB) and Commercial Banking (CB); the Country Credit Head – Retail Banking is responsible for credit risk in the Retail Banking segment; the Head of Special Assets Management is responsible for remedial risk management and the Head of Traded Market Risk is responsible for Market risk and Head Traded Credit Risk for Traded Credit risk. Regional Head of Group Treasury is responsible for Liquidity Risks (other than Prudential Liquidity for which CFO is responsible).

The Bank has established policies, procedures, processes and controls and has provided the Risk team with adequate support by way of risk systems and tools for measuring and reporting risk for monitoring, controlling, reviewing and managing risk. The Bank follows the Risk Appetite Statement approved by the Standard Chartered Board. The Risk appetite Statement is underpinned by a set of financial and operational control parameters, known as risk tolerances. The Risk Appetite Statement is also supplemented by an overarching statement outlining the Group’s Risk Appetite Principles. Control tools such as exposure limits, underwriting standards, scorecard cut-offs and policies and other operational control parameters are used to keep the Bank’s risk profile within risk appetite and risk capacity.

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Under the First Line of defence, businesses and functions engaged in or supporting revenue generating activities that own and manage risks are accountable for risk management. The Second Line of defence comprises the Risk Framework Owners who provide oversight and challenge of risk management to provide confidence to the Country Chief Risk Officer and the Country Management Team. The third line of defence is the independent assurance provided by the Internal Audit Function, of the effectiveness of controls that support First Line’s risk management of business activities, and the processes maintained by the Second Line.

27.3 Credit risk

Credit risk management

Credit risk is the potential for loss due to the failure of counterparty to meet its obligations to pay the Bank in accordance with agreed terms. Credit exposures arise from both the banking and trading books. Credit risk is managed through the ERMF which sets out policies and procedures covering the measurement and management of credit risk, in compliance with the Group’s Credit Risk Appetite Statement. Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

The Bank manages its credit exposures following the principle of diversification across products, geographies, industries, collateral types and client segments.

Credit policies and procedures set key control standards on credit origination and credit risk assessment, concentration risk and large exposures, credit risk mitigation, credit monitoring, collection and recovery management. In addition, there are other policies integral to the credit risk management such as those relating to stress testing, risk measurement and impairment provisioning.

27 Financial risk management (continued)

27.3 Credit risk (continued)

Credit Risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor. The Bank’s credit policies set out the key considerations for eligibility, enforceability and effectiveness of credit risk mitigation arrangements. The requirement for risk mitigation is, however, not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

Physical collateral, such as property, fixed assets and commodities must be valued independently and an active secondary resale market for the collateral must exist. The collateral must be valued prior to drawdown and regularly thereafter. The valuation frequency is typically annual and more frequent valuations are driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Risk mitigation benefits may be reduced or removed where the collateral value is not supported by a recent independent valuation.

Documentation must be held to enable the Bank to realize the asset without the cooperation of the asset owner in the event that this is necessary. Physical collateral is required to be insured at all times against risk of physical loss or damage. Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realize the collateral in the event of liquidation. The Bank also seeks to diversify its collateral holdings across asset classes and markets.

Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realize the collateral in the event of possession. Where guarantees, credit insurance or credit derivatives are used as credit risk mitigation, the creditworthiness of the guarantor is assessed and established using the credit approval process in addition to that of the obligor or main counterparty.

Concentration risk

Credit concentration risk may arise from a single large exposure to counterparty or a group of connected counterparties, or from multiple exposures across the portfolio that are closely correlated.

Large exposure concentration risk is managed through concentration limits set by counterparty or group of connected counterparties.

At the portfolio level, credit concentration thresholds are set and monitored to control concentrations, where appropriate, by industry, tenor, and collateralisation level and credit grades.

Traded products

Credit risk from traded products is managed within the overall credit risk appetite for corporate and financial institutions.

The credit risk exposure from traded products is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements. In line with International Accounting Standards (IAS) 32, derivative exposures are presented on a net basis in the financial statements only if there is a legal right to offset and there is intent to settle on a net basis or realise the assets and liabilities simultaneously.

27 Financial risk management (continued)

27.3 Credit risk (continued)

Investment securities

Day to day credit risk management activities for traded securities are carried out by a specialist team within the Risk function whose activities include oversight and approval within the levels delegated by the Underwriting Committee. Issuer credit risk, including settlement and pre-settlement risk, and price risk are controlled by the Risk function.

The following table provides analysis of the debt securities and equity shares which are neither past due nor impaired. The standard credit ratings used by the Bank are those assessed by Standard & Poors or their equivalent. Debt securities held which have a short-term rating are reported against the long-term rating of the issuer. For securities which are unrated, the Bank applies an internal credit rating.

Analysis of the debt securities and equity shares

Rating	**2017**			2016		
	Debt Securities	**Equity Shares**	**Total**	Debt Securities	Equity Shares	Total
	AED 000	**AED 000**	**AED 000**	AED 000	AED 000	AED 000
AAA	2,622,600	-	**2,622,600**	2,920,777	-	2,920,777
AA- to AA+	823,788	-	**823,788**	819,109	-	819,109
A- to A+	571,930	-	**571,930**	331,650	-	331,650
BBB- to BBB+	-	-	**-**	-	-	-
Lower than BBB-	-	-	**-**	-	-	-
Unrated	4,006,797	-	**4,006,797**	6,110,013	-	6,110,013
	8,025,115	**-**	**8,025,115**	10,181,549	-	10,181,549

Credit rating & measurement

Risk measurement plays a central role, along with judgment and experience, in informing risk taking and portfolio management decisions.

A standard alphanumeric credit risk grade (CG) system for CIB and CB is used. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 are assigned to performing customers or accounts, while credit grades 13 and 14 are assigned to non-performing or defaulted customers. An analysis by credit grade of those loans that are neither past due nor impaired is set out in note 27.3 (e).

For Retail client IRB portfolios, we use application and behaviour credit scores which are calibrated to generate a probability of default and then mapped to the standard alphanumeric credit risk grade system.

Credit monitoring

The Bank regularly monitors credit exposures, portfolio performance, and external trends that may impact risk management outcomes.

Internal risk management reports are presented to risk committees, containing information on key environmental, political & economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance.

27 Financial risk management (continued)

27.3 Credit risk (continued)

Credit monitoring

Clients are placed on early alert when they display signs of actual or potential weakness; for example, where there is a decline in the client's position within the industry, financial deterioration, a breach of covenants, non-performance of an obligation within the stipulated period or there are concerns relating to ownership or management. Such accounts are subjected to a dedicated process overseen by the Credit Issues Committees in the relevant countries where client account plans and credit grades are re-evaluated. In addition, remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of Group Special Assets Management (GSAM), our specialist recovery unit for Corporate & Institutional Banking, Commercial Banking and Private Banking.

For Retail Banking exposures, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and considered for lending decisions. Accounts that are past due are subject to a collections process, managed independently by the Risk function. Charged-off accounts are managed by specialist recovery teams.

Loan portfolio

During 2017, gross loans and advances to customers have increased by AED 5.2 million (2016: decreased by AED 3,362 million) to AED 33,244 million (2016: 33,238 million).

a) Analysis of gross loans and advances by industry segment

	2017	2016
	AED 000	AED 000
Agriculture and Allied Activities	**113,557**	75,157
Mining & Quarrying	**55,676**	598,235
Manufacturing	**2,240,633**	1,887,802
Electricity, Gas and Water	**-**	-
Construction & Real Estate	**3,414,889**	2,427,862
Trade	**10,605,876**	9,484,223
Transport, Storage & Communication	**393,106**	1,588,749
Financial Institutions	**2,622,115**	2,946,143
Other Services	**1,110,947**	1,334,316
Government	**10,229**	-
Loans to Individuals	**12,676,873**	12,895,794
	33,243,901	33,238,281

b) Analysis of gross loans and advances by geography

	2017	2016
	AED 000	AED 000
United Arab Emirates	**31,723,460**	31,314,854
Other GCC	**239,373**	242,075
India	**77,903**	95,828
Others	**1,203,165**	1,585,524
	33,243,901	33,238,281

Concentration by location for loans and advances is based on the location of the borrower and/ or country of residence.

27 Financial risk management (continued)

27.3 Credit risk (continued)

c) Analysis of loan portfolio by credit quality

Particulars	2017						2016					
		Loans to customers						Loans to customers				
	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Impaired loans	894	2,040,805	996,904	12,288	184,681	3,234,678	894	2,059,343	982,257	12,288	169,470	3,223,358
Past due but not impaired loans	60,326	1,081,485	172,780	-	712,115	1,966,380	22,298	2,560,769	566,492	-	777,450	3,904,711
Neither past due nor impaired loans	3,748,507	9,402,500	6,844,541	596,542	11,199,260	28,042,843	2,628,399	8,782,649	5,316,725	824,183	11,186,655	26,110,212
Specific impairment provision	(894)	(1,371,772)	(937,848)	(12,288)	(94,768)	(2,416,676)	(894)	(1,327,562)	(1,089,211)	(12,288)	(82,337)	(2,511,398)
Portfolio impairment provision	(3,237)	(425,465)	(123,678)	(6,131)	(107,489)	(662,763)	(2,230)	(438,920)	(103,525)	(9,206)	(106,119)	(657,770)
	3,805,596	10,727,553	6,952,699	590,411	11,893,799	30,164,462	2,648,467	11,636,279	5,672,738	814,977	11,945,119	30,069,113

d) Loans and advances past due but not impaired

The following tables set out the ageing of loans and advances which are past due but not impaired and for which no individual impairment provision has been raised. A loan is considered to be past due when the counterparty has failed to make a principal or interest payment when contractually due. Past due status of a loan does not necessarily mean that the counterparty is impaired.

Particulars	2017						2016					
		Loans to customers						Loans to customers				
	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Up to 30 days past due	60,326	1,081,278	90,566	-	550,508	1,722,352	22,298	2,466,310	336,913	-	604,315	3,407,538
Between 31-60 days past due	-	207	8,300	-	78,278	86,785	-	94,459	92,496	-	122,244	309,199
Between 61-90 days past due	-	-	73,914	-	83,329	157,243	-	-	137,083	-	50,891	187,974
Between 91-150 days past due	-	-	-	-	-	-	-	-	-	-	-	-
More than 150 days past due	-	-	-	-	-	-	-	-	-	-	-	-
	60,326	1,081,485	172,780	-	712,115	1,966,380	22,298	2,560,769	566,492	-	777,450	3,904,711

e) Loans and advances neither past due nor impaired by Credit Grades

The following tables set out an analysis of loans and advances by internal credit grading which are not past due and for which no individual impairment provision has been raised. Whilst there is no direct relationship between these credit grading and those of external rating agencies, investment, sub-investment and non-investment grading approximately equate to the expectation of default, with a higher rate of default expected within the non-investment grade category.

Particulars	2017						2016					
		Loans to customers						Loans to customers				
	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Grades 1-5: Investment grade	2,106,438	4,766,947	1,883,502	596,542	11,199,260	18,446,251	1,500,464	4,780,452	616,539	824,183	11,186,655	17,407,829
Grades 6-8: Sub-investment grade	1,635,599	1,760,294	2,957,106	-	-	4,717,400	1,126,030	2,867,255	3,344,190	-	-	6,211,445
Grades 9-11: Non-investment grade	6,470	1,697,745	1,845,900	-	-	3,543,645	1,905	451,784	1,204,120	-	-	1,655,904
Grade 12: Watch list	-	1,177,514	158,033	-	-	1,335,547	-	683,158	151,876	-	-	835,034
	3,748,507	9,402,500	6,844,541	596,542	11,199,260	28,042,843	2,628,399	8,782,649	5,316,725	824,183	11,186,655	26,110,212

27 Financial risk management (continued)

27.3 Credit risk (continued)

f) Analysis of non-performing loans by security

The table below presents an analysis of the non-performing loans at the reporting date, split between fully secured, partially secured and unsecured, based on the loan coverage by collateral:

	2017	2016
	AED 000	AED 000
Fully secured	**221,249**	232,814
Partially secured	**1,426,793**	1,303,420
Unsecured	**1,587,530**	1,688,018
	3,235,572	3,224,252

g) Collateral and other credit enhancements possessed or called upon

The value of the collateral possessed/called upon by the Bank during the year are as below:

	2017	2016
	AED 000	AED 000
Vehicles	3,653	3,475
	3,653	3,475

27 Financial risk management (continued)

27.4 Market risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Bank's exposure to market risk arises in support of its client activities, facilitation of which entails the Bank's taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk related activities is broadly stable.

The primary categories of market risk for the Bank are:

• interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;

• currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options;

The Group Risk Committee (GRC) is responsible for the establishment of, and compliance with, policies relating to market risk. GRC approves Group-level market risk limits and stress loss triggers for Treasury-Markets and Trading Book that reflect the Group's appetite for market risk. Corporate and Institutional Banking Risk Committee (CIBRC) approves the subsequent cascade of these Group limits as appropriate and Market and Traded Credit Risk (MTCR) further cascades these limits to a more granular level. Business units taking market risk must

Market risk limits are reviewed by CIBRC to ensure they are consistent with financial budgets and any changes in the business operations. MTCR co-ordinates the limit review process.

The Bank uses historic simulation to measure VaR. As at 31 December 2017, the VaR of the Banking book amounted to AED 1.8 million (2016: AED 4.5 million), while the trading book VaR was at AED 1.1 million

Interest rate risk from non-trading book portfolios is transferred to the Financial Markets where it is managed by the Treasury Markets desk under the supervision of the Country Risk Committee (CRC). Treasury Markets deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits.

Sensitivity analysis - interest rate risk

Interest rate risk is also assessed by measuring the impact of possible interest rate movements. The Bank estimates the sensitivity of the banking book to 1 basis point fluctuation in interest rate to be as follows:

	2017	2016
	AED 000	AED 000
Movement in yield by 1 bp	**+/- 88**	+/- 276
Impact on equity after tax	**+/- 70**	+/- 221

The substantial portion of the Bank's assets and liabilities are re-priced within one year. The interest rate sensitivities set out above are economic value based and illustrative only. The result does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

27 Financial risk management (continued)

27.4 Market risk (continued)

Interest rate sensitivity of asset and liabilities

The Bank's interest rate gap position on assets and liabilities based on the contractual re-pricing dates is as follows:

Particulars	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Non Interest bearing	Total	Effective interest rate 2017 / (2016)
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	%
2017								
Cash and balances with the Central Bank of the UAE	1,100,000	1,619,283	700,020	-	-	4,605,342	8,024,645	0.91 / (0.58)
Loans and advances to banks	1,210,795	1,280,619	822,595	495,831	-	(4,244)	3,805,596	1.24 / (1.14)
Due from the Head Office and other branches	2,920,261	46,694	17,255	-	825	273,492	3,258,527	0.35 / (0.39)
Loans and advances to customers	10,602,730	7,503,834	3,708,591	6,489,347	1,759,053	100,907	30,164,462	4.34 / (4.14)
Investment securities	431,334	2,944,644	1,046,240	183,594	-	-	4,605,812	1.44 / (1.23)
Property and equipment	-	-	-	-	-	28,322	28,322	-
Intangible assets	-	-	-	-	-	17,949	17,949	-
Other assets including acceptances	-	-	-	-	-	3,419,278	3,419,278	-
Total assets	**16,265,120**	**13,395,074**	**6,294,701**	**7,168,772**	**1,759,878**	**8,441,046**	**53,324,591**	
Due to banks	136,576	91,009	-	56	-	730,395	958,036	0.74 / (0.73)
Due to the Head Office and other branches	2,490,059	193,214	333,071	548,518	11,000	602,796	4,178,658	0.53 / (0.43)
Deposits from customers	9,725,345	4,754,108	2,201,091	1,989,095	635,540	17,754,223	37,059,402	1.01 / (0.88)
Other liabilities including acceptances	-	-	-	-	-	3,868,358	3,868,358	-
Subordinated loans	-	-	-	-	624,407	-	624,407	3.75 / (3.53)
Equity	-	-	-	-	-	6,635,730	6,635,730	-
Total liabilities and equity	**12,351,980**	**5,038,331**	**2,534,162**	**2,537,669**	**1,270,947**	**29,591,502**	**53,324,591**	
On balance sheet interest rate sensitivity gap - 2017	**3,913,140**	**8,356,743**	**3,760,539**	**4,631,103**	**488,931**	**(21,150,456)**	**-**	
Cumulative interest rate sensitivity gap - 2017	**3,913,140**	**12,269,883**	**16,030,422**	**20,661,525**	**21,150,456**	**-**	**-**	
On balance sheet interest rate sensitivity gap - 2016	1,282,904	5,896,169	2,700,010	7,316,564	902,818	(18,098,465)	-	
Cumulative interest rate sensitivity gap - 2016	1,282,904	7,179,073	9,879,083	17,195,647	18,098,465	-	-	

27 Financial risk management (continued)

27.5 Liquidity and Funding risk

Liquidity risk is the potential for loss because the Bank, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can access these financial resources only at excessive cost. Funding risk is the potential for actual or opportunity loss because the Bank does not have stable or diversified sources of funding in the medium and long term to enable it to meet its financial obligations in pursuit of its desired business strategy or growth objectives.

Management of liquidity risk

The Liquidity and Funding Risk Type Framework details the ERMF in relation to the management and control of liquidity and funding risk. The Regional Head, Treasury Risk and CFO (for Local Prudential Liquidity) are the Risk owners responsible for meeting this framework and ensuring that risks are monitored and remain within risk appetite.

The ALCO is responsible for ensuring that the capital, liquidity and funding risks remain within the overall risk appetite, and are supported by the regional Treasury-Markets desk so as to ensure they operate within the predefined liquidity limits and remain within compliance with liquidity policies and practices. In addition to these metrics, the Bank maintains a Recovery Plan which includes a broad set of recovery indicators, an escalation framework and a set of management actions that can be effectively implemented in the event of a liquidity and funding stress.

The Risk Appetite Statement reflects the Bank’s risk appetite for Liquidity and Funding, which is expressed through the following risk metrics:

- Survival Horizons - defines for how long, during an extreme but plausible liquidity stress, entities within the Group are able to survive before franchise damaging management actions are deployed.
- Liquidity Coverage Ratio - regulatory stress ratio measuring the proportion of high quality liquid assets against net outflows over 30 calendar days.
- Advances to Deposits Ratio - ensures that the Bank remains largely client funded and does not become excessively reliant on wholesale funding.
- Wholesale Borrowing-External - measures and limits the absolute size of external wholesale borrowings by Treasury-Markets (mainly through CP, CD and Interbank market) to avoid excessive reliance on such funding as it may not be available during stress.
- Maximum Cumulative Outflow (MCO): the MCO is the peak cumulative net cash outflow over a defined time period arising from all on-balance sheet and off-balance sheet items, under normal conditions.
- Wholesale Borrowing Internal (WBI): the WBI includes borrowings by one entity from any other branch or operating subsidiary that is part of the Standard Chartered Group.
- Medium Term Funding Ratio (MTFR) – it is calculated by dividing liabilities with a maturity of more than 1 year by assets of similar maturity. MTFR is calculated both on a contractual & behavioural bases and is monitored separately for ACY, LCY and Foreign Currency FCY.
- Swapped Funds (SWF): The SWF is the difference between assets and liabilities including capital denominated in the same currency.
- Intraday Liquidity (IDL): The IDL risk is the risk that the Group fails to manage its intraday liquidity effectively, which could leave it unable to meet a payment obligation at the time expected, thereby affecting the Group’s own liquidity position and that of other parties.
- Depositor Concentration – where the balance of Top 10 depositors can’t exceed 20% of Funded Liability Base (FLB) and where the balance of one individual depositor can’t exceed 5% of the same FLB.

27 Financial risk management (continued)

27.5 Liquidity risk (continued)

a) Maturity profile of asset and liabilities

The following table analyses the contractual maturities of assets and liabilities based on the remaining period at the reporting date

Particulars	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Cash and balances with the Central Bank of the UAE	2,605,442	4,719,183	700,020	-	-	8,024,645
Loans and advances to banks	1,114,727	1,280,619	822,595	587,655	-	3,805,596
Due from the Head Office and other branches	3,193,753	46,694	17,255	-	825	3,258,527
Loans and advances to customers	5,641,582	3,255,519	2,439,879	4,506,669	14,320,813	30,164,462
Investment securities	183,505	1,130,214	386,792	1,988,282	917,019	4,605,812
Property and equipment	-	-	-	-	28,322	28,322
Intangible assets	-	-	-	-	17,949	17,949
Other assets including acceptances	821,651	680,044	565,953	189,443	1,162,187	3,419,278
Total assets	**13,560,660**	**11,112,273**	**4,932,494**	**7,272,049**	**16,447,115**	**53,324,591**
Due to banks	860,315	91,009	3,356	55	3,301	958,036
Due to the Head Office and branches	3,239,773	77,806	333,071	401,604	126,404	4,178,658
Deposits from customers	27,284,669	4,807,871	2,240,413	2,074,914	651,535	37,059,402
Other liabilities including acceptances	1,069,649	1,383,445	536,836	195,572	682,856	3,868,358
Subordinated loan	-	-	-	-	624,407	624,407
Equity	-	-	-	-	6,635,730	6,635,730
Total liabilities and equity	**32,454,406**	**6,360,131**	**3,113,676**	**2,672,145**	**8,724,233**	**53,324,591**
Net on balance sheet liquidity gap 2017	**(18,893,746)**	**4,752,142**	**1,818,818**	**4,599,904**	**7,722,882**	**-**
Off balance sheet items						
Letters of credit	623,263	959,503	256,603	208,153	-	2,047,522
Guarantees	1,713,763	1,952,852	2,840,880	4,760,136	6,401,820	17,669,451
	2,337,026	**2,912,355**	**3,097,483**	**4,968,289**	**6,401,820**	**19,716,973**
At 31 December 2016:						
Total assets	10,534,452	11,340,033	7,567,904	8,640,868	17,840,784	55,924,041
Total liabilities and equity	31,090,011	8,023,442	5,713,552	1,850,386	9,246,650	55,924,041
Net on balance sheet liquidity gap 2016	(20,555,559)	3,316,591	1,854,352	6,790,482	8,594,134	-
Letters of credit	654,567	1,501,841	165,020	139,514	127,756	2,588,698
Guarantees	1,366,839	2,610,148	2,450,892	3,175,576	6,751,128	16,354,583
	2,021,406	4,111,989	2,615,912	3,315,090	6,878,884	18,943,281

27 Financial risk management (continued)

27.5 Liquidity risk (continued)

b) Contractual cash flows payable for the Bank's financial liabilities (excluding derivative financial instruments) on an undiscounted basis

The following table analyses the contractual cash flows payable for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The financial liability balances in the below table will not agree to the balances reported in the balance sheet as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments.

Particulars		**2017**					2016				
		Carrying amount	**3 months or less**	**3 month to 1 years**	**1 to 5 years**	**More than 5 years**	Carrying amount	3 months or less	3 month to 1 years	1 to 5 years	More than 5 years
		AED 000	**AED 000**	**AED 000**	**AED 000**	**AED 000**	AED 000	AED 000	AED 000	AED 000	AED 000
Due to banks	- Principal	**958,036**	**951,324**	**3,411**	**3,301**	**-**	3,224,317	3,178,062	40,449	5,806	-
	- Interest		**1,835**	**1**	**-**	**-**		6,401	3,065	-	-
Due to the Head Office and branches	- Principal	**4,178,658**	**3,317,579**	**734,675**	**126,404**	**-**	3,412,142	1,569,349	1,272,957	569,836	-
	- Interest		**486**	**11,653**	**18,413**	**-**		1,975	11,248	62,504	-
Deposits from customers	- Principal	**37,059,402**	**32,092,540**	**4,315,327**	**651,535**	**-**	37,043,926	31,431,380	5,141,073	467,473	4,000
	- Interest		**46,894**	**69,694**	**15,724**	**757**		57,484	50,608	2,750	757
Subordinated debt	- Principal	**624,407**	**-**	**-**	**-**	**624,407**	1,873,133	-	-	679,470	1,193,663
	- Interest		**6,534**	**19,602**	**104,545**	**26,136**		17,752	53,253	257,271	87,930
Other liabilities including acceptances	- Principal	**2,810,993**	**2,124,155**	**475,841**	**210,997**	**-**	3,359,828	2,260,578	902,770	196,480	-
Total liabilities (principal only)		**45,631,496**	**38,485,598**	**5,529,254**	**992,237**	**624,407**	48,913,346	38,439,369	7,357,249	1,919,065	1,197,663

27 Financial risk management (continued)

27.6 Operational risk

Operational risk (OR) is the potential for loss resulting from inadequate or failed internal processes, people, or technology or the impact of external events, including legal risks. The Bank seeks to control operational risks to ensure that operational losses do not cause material damage to the Bank’s franchise.

OR exposures are managed in accordance with the standards set by Group Operational Risk in the Operational Risk Framework (“ORF”). The ORF is required to be installed for prioritised risks in all businesses and functions. It defines the OR management responsibilities of the First and Second Lines, including the OR sub-types and the Risk Framework Owners ("RFOs") for each type.

The responsibility for daily management of OR exposures rests with the business. Operational Risk Officers have been appointed to ensure that the ORF is implemented and they work with RFOs to manage the Operational Risk profile. The CRC provides oversight of operational risk management. It is supported by the Country Operational Risk Committee, which exercises oversight of the Bank’s OR exposures to ensure that it is aligned with the Bank’s Enterprise Risk Management Framework and the Group Financial Crime Risk Committee, which oversee operational risk arising from the global businesses and functions.

27.7 Reputational risk

Reputational risk is the potential for damage to the franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the organisation or its actions. Failures in behaviours or systems may affect stakeholders’ perceptions of the Group’s commitment to its Here for good brand promise.

The Bank’s Reputational Risk Policy establishes the framework for the governance and management of reputational risk. The framework aims to protect the Bank’s reputation and restrict the ability to undertake any activities that may cause material damage to the Group's franchise. All employees are responsible for day-to-day identification and management of reputational risk. These responsibilities form part of the Code of Conduct and are further embedded through values-based performance assessments. The Group reports on its environmental and social performance through the Group’s Annual Report and Accounts and through the sustainability section of the Group’s website. The Country Risk Committee provides country-wide oversight on reputational risk, sets policy and monitors material risks.

At the country level, the Country Chief Risk Officer is the Risk Framework Owner for reputational risk supported by the Head of Corporate Affairs to identify report and manage material risks.

27.8 Information and Cyber Security Risk

Information and Cyber Security (“ICS”) risk is the risk of a breach of confidentiality, integrity and availability of SCB information systems and assets through cyber attack, insider activity, error or control failure which may lead to adverse customer and reputational impact, regulatory censure, financial loss, litigation and the potential for the Group to fail; affecting financial markets and the wider economy. Information and cyber security risk is managed through a structured framework comprised of a risk assessment methodology and supporting policies, procedures and standards which are aligned to industry best practice models.

27 Financial risk management (continued)

27.9 Capital risk management

The Bank’s capital management approach is driven by its desire to maintain a strong capital base to support the development of its business in the UAE and to meet the regulatory capital requirements of the Central Bank of the UAE at all times. The Central Bank of the UAE also requires the Pillar 2 – Supervisory Review Process to focus on the Bank’s Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar 1 capital calculations. The ICAAP includes a risk based, forward looking view of Credit, Market and Operational risk capital.

The Asset Liability Management Committee (ALCO) in the UAE is responsible for ensuring that the Bank maintains a strong and comfortable capital position in UAE. Based on the balance sheet plan, the Bank prepares a capital plan to determine the capital requirement, which is reviewed and approved by the country ALCO and Group Treasury. An update on the capital position is provided to the country ALCO on a regular basis.

During 2017, Central Bank of UAE has issued the Basel 3 capital calculation guidelines for banks operating in UAE, which have been made effective from 31 December 2017.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital composed of Common Equity Tier 1 (CET 1) and Additional Tier 1 (AT1), where CET1 capital comprises of common shares issued by a bank that are eligible for inclusion in CET1, resultant share premium, retained earnings, legal & statutory reserves, accumulated comprehensive income and other reserves. AT1 represents instruments issued by a bank which are eligible for inclusion in AT1 and are not included in CET1 and related share premium. The Bank currently does not have any AT1 as of 31 Dec 2017.
- Tier 2 capital includes qualifying subordinated liabilities and general provisions

The Bank has complied with all regulatory requirements issued by the Central Bank of the UAE during the year. The following is the Bank’s capital adequacy position under Basel III and Basel II as at 31 December:

	Basel III 2017 AED 000	**Basel II 2017 AED 000**	Basel II 2016 AED 000
Capital adequacy ratio (CAR)			
Capital Base			
CET1 / Tier 1 capital	**6,472,657**	**6,617,782**	5,350,159
Tier 2 capital	**1,097,434**	**1,166,176**	2,148,865
Total capital base (sum of tier 1 and tier 2 capital)	**7,570,091**	**7,783,958**	7,499,024
Risk Weighted Assets			
Credit Risk	**44,063,796**	**43,341,306**	43,794,979
Market Risk	**824,265**	**824,265**	926,892
Operational Risk	**3,904,132**	**3,904,132**	4,599,158
Total risk weighted assets (RWA)	**48,792,193**	**48,069,703**	49,321,029
Total regulatory capital expressed as % of RWA	**15.51%**	**16.19%**	15.20%
CET1/Tier 1 capital ratio expressed as % of RWA	**13.27%**	**13.77%**	10.85%

28 Assets and liabilities under acceptances

	2017	2016
	AED 000	AED 000
Customers' indebtedness for and the Bank's liability under acceptances	**1,334,823**	**1,941,084**

Customers' indebtedness for acceptances represents the accepted documented liability amount which is recoverable from the respective customers of the Bank at the reporting date.

Liabilities under acceptances represent bills of exchange, letter of credits, etc. where the Bank has accepted the liabilities under documentary credits at the reporting date. These assets and liabilities have been presented on a gross basis on the face of the statement of financial position as the Bank does not have a legal right of offset.

29 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Bank, related parties, as defined in International Accounting Standard 24: Related Parties, include key management personnel and other branches and fellow subsidiaries in the Standard Chartered Group, with whom banking transactions are carried out on agreed terms.

The significant transactions included in the financial statements with related parties are as follows:

	2017	2016
	AED 000	AED 000
Interest income	**10,640**	13,989
Interest expense	**91,339**	81,909
Non interest income	**160,917**	156,599
Non interest expense	**142,586**	147,844
Head Office charges	**221,630**	155,688

The year-end balances in respect of related parties are disclosed as due from / to the Head Office and branches. The balances of amounts due from / to the Head Office and branches are as follows:

	2017	2016
	AED 000	AED 000
Due from the Head Office and other branches	**3,258,527**	4,328,099
Due to the Head Office and other branches	**4,178,658**	3,412,142

The notional value of derivative contracts entered into with related parties outstanding at the year end amounted to AED 100,043 million (31 December 2016: AED 79,810 million).

Contingent liabilities on behalf of related parties outstanding at the year end amounted to AED 3,033 million (31 December 2016: AED 3,582 million).

Remuneration to key management personnel is as follows:

	2017	2016
	AED 000	AED 000
Salary and short term benefits	**28,682**	32,566
Staff terminal benefits	**1,100**	1,295

30 Accounting classification and fair values

a) Accounting classification and fair values of all financial assets and liabilities

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values.

Particulars	Carrying amount	Fair value through profit or loss	Held to maturity	Loans and receivables	Available-for-sale	Others at amortised cost
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
2017						
Financial assets						
Cash and balances with the Central Bank of the UAE	**8,024,645**	-	-	**4,605,342**	**3,419,303**	-
Loans and advances to banks	**3,805,596**	-	-	**3,805,596**	-	-
Due from the Head Office and branches	**3,258,527**	-	-	**3,258,527**	-	-
Loans and advances to customers	**30,164,462**	-	-	**30,164,462**	-	-
Investment securities	**4,605,812**	-	-	-	**4,605,812**	-
Other assets	**2,643,193**	**1,056,995**	-	**1,586,198**	-	-
Total assets	**52,502,235**	**1,056,995**	-	**43,420,125**	**8,025,115**	-
Financial liabilities						
Due to banks	**958,036**	-	-	-	-	**958,036**
Due to the Head Office and branches	**4,178,658**	-	-	-	-	**4,178,658**
Deposits from customers	**37,059,402**	-	-	-	-	**37,059,402**
Other liabilities	**2,528,274**	**1,057,365**	-	-	-	**1,470,909**
Subordinated loan	**624,407**	-	-	-	-	**624,407**
	45,348,777	**1,057,365**	-	-	-	**44,291,412**
2016						
Financial assets						
Cash and balances with the Central Bank of the UAE	8,333,802	-	-	3,794,498	4,539,304	-
Loans and advances to banks	2,648,467	-	-	2,648,467	-	-
Due from the Head Office and branches	4,328,099	-	-	4,328,099	-	-
Loans and advances to customers	30,069,113	-	-	30,069,113	-	-
Investment securities	5,642,245	-	-	-	5,642,245	-
Other assets	3,858,142	1,652,589	-	2,205,553	-	-
Total assets	54,879,868	1,652,589	-	43,045,730	10,181,549	-
Financial liabilities						
Due to banks	3,224,317	-	-	-	-	3,224,317
Due to the Head Office and branches	3,412,142	-	-	-	-	3,412,142
Deposits from customers	37,043,926	-	-	-	-	37,043,926
Other liabilities	3,760,002	1,644,258	-	-	-	2,115,744
Subordinated loan	1,873,133	-	-	-	-	1,873,133
	49,313,520	1,644,258	-	-	-	47,669,262

30 Accounting classification and fair values (continued)

b) Valuation of financial instruments

Valuation Control framework

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk-taker. Finance establishes the accounting policies and procedures governing valuation, and is responsible for ensuring that they comply with all relevant accounting standards. Independent price verification is the process of determining the valuations incorporated into the financial statements are validated independent of the Business area responsible for the product. The Bank has oversight of the fair value adjustments to ensure the financial instruments are priced to exit. These are key controls in ensuring the material accuracy of the valuations incorporated in the financial statements. In inactive markets, direct observation of a traded price may not be possible. The market data used for price verification may include those sourced from recent trade data involving external counterparties or third parties such as Bloomberg, Reuters, brokers and consensus pricing providers. Price verification uses independently sourced data that is deemed most representative of the market the instruments trade in. To determine the quality of the market data inputs, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider are taken into consideration.

Valuation hierarchy

The valuation hierarchy, and the types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable	One or more inputs that are not based on observable market data (unobservable inputs)
Types of financial assets:	- Actively traded government and other securities - Listed equities - Listed derivative instruments - Investments in publicly traded mutual funds with Listed market prices	- Over-the-counter (OTC) derivatives - Asset backed securities - Private equity investments	- Corporate and other government bonds and loans - Asset backed securities - Private equity investments - Highly structured OTC derivatives with unobservable parameters - Illiquid or highly structured corporate bonds with unobservable inputs
Types of financial liabilities:	- Listed derivative instruments	- OTC derivatives - Structured deposits - Credit structured debt securities in issue	- Highly structured OTC derivatives with unobservable parameters - Illiquid highly structured debt securities in issue with unobservable inputs

30 Accounting classification and fair values (continued)

b) Valuation of financial instruments (continued)

Financial instruments measured at Fair value – fair value hierarchy:

The table below sets out the fair values of financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Particulars	Financial asset fair value through profit or loss				Available-for-sale			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
2017								
Financial assets								
Cash and balances with the Central Bank of the UAE	-	-	-	-	-	**3,419,303**	-	**3,419,303**
Investment securities	-	-	-	-	-	**4,605,812**	-	**4,605,812**
Other assets (derivative financial instruments)	**3,207**	**1,053,676**	**112**	**1,056,995**	-	-	-	-
Total assets	**3,207**	**1,053,676**	**112**	**1,056,995**	-	**8,025,115**	-	**8,025,115**
Financial liabilities								
Other liabilities (derivative financial instruments)	**3,221**	**1,054,032**	**112**	**1,057,365**	-	-	-	-
	3,221	**1,054,032**	**112**	**1,057,365**	-	-	-	-
2016								
Financial assets								
Cash and balances with the Central Bank of the UAE	-	-	-	-	-	4,539,304	-	4,539,304
Investment securities	-	-	-	-	-	5,642,245	-	5,642,245
Other assets (derivative financial instruments)	3,603	1,648,986	-	1,652,589	-	-	-	-
Total assets	3,603	1,648,986	-	1,652,589	-	10,181,549	-	10,181,549
Financial liabilities								
Other liabilities (derivative financial instruments)	3,366	1,640,892	-	1,644,258	-	-	-	-
	3,366	1,640,892	-	1,644,258	-	-	-	-

During the year ended 31 December 2017, there was no transfer of financial assets and liabilities from level 1 / 2 to level 3 of the fair value hierarchy.

i) Analysis of movement in level 3 assets held at fair value

The following table shows a reconciliation from the beginning balances to the ending balances for financial assets and liabilities fair valued through profit and loss in Level 3 of the fair value hierarchy:

	2017				2016			
	Financial asset		**Financial liability**		**Financial asset**		**Financial liability**	
	Investment securities	**Other assets (derivative financial instrument)**	**Investment securities**	**Other liabilities (derivative financial instrument)**	**Investment securities**	**Other assets (derivative financial instrument)**	**Investment securities**	**Other liabilities (derivative financial instrument)**
	AED 000	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**
Balance at 1 January	-	-	-	-	-	548	-	548
Translation increase (decrease)	-	-	-	-	-	-	-	-
Purchases / Issues	-	-	-	-	-	506	-	506
Settlements	-	-	-	-	-	(548)	-	(548)
(Losses) / Gains recognised in profit and loss	-	112	-	112	-	-	-	-
Transfers out of level 3	-	-	-	-	-	(506)	-	(506)
Other movements	-	-	-	-	-	-	-	-
Balance at 31 December	-	**112**	-	**112**	-	-	-	-

Although the Bank believes that its estimates at fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurement in Level 3, changing the risk variables by +/- 10% would not have any material impact on the financial statements.

30 Accounting classification and fair values (continued)

b) Valuation of financial instruments (continued)

Fair value adjustments

When establishing the exit price of a financial instrument using a valuation technique, the Bank considers adjustments to the modelled price which market participants would make when pricing that instrument. The Bank has made the following valuation adjustments in statement of profit and loss in determining fair value for financial assets and financial liabilities:

	2017	2016
	AED 000	AED 000
Bid-offer	**582**	2,122
Credit adjustment*	**17,949**	(24,484)
	18,531	(22,362)

* includes funding valuation adjustment and own credit adjustment on derivatives

The main adjustments are described below:

Bid-offer valuation adjustments

Where market parameters are marked on a mid-market basis in the revaluation systems, a bid-offer valuation adjustment is required to quantify the expected cost of neutralising the Business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. The methodology to calculate the bid-offer adjustment for a derivative portfolio involves netting between long and short positions and the grouping of risk by strike and tenor based on the hedging strategy where long positions are marked to bid and short positions marked to offer in the systems.

Credit valuation adjustments (CVA)

The Bank makes a CVA against the fair value of derivative products. CVA is an adjustment to the fair value of the transactions to reflect the possibility that our counterparties may default and we may not receive the full market value of the outstanding transactions. It represents an estimate of the adjustment a market participant would include when deriving a purchase price to acquire our exposures. CVA is calculated for each counterparty to which the Bank has exposure and takes account of any collateral we may hold. The Bank calculates the CVA by applying the probability of default (PD) on the potential estimated future positive exposure of the counterparty using market-implied PD. Where market-implied data is not readily available, we use market based proxies to estimate the PD. The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk arises when the underlying value of the derivative prior to any CVA is positively correlated to the probability of default by the counterparty. The Bank continues to include 'wrong-way risk' in its Prudential Valuation Adjustments. The CVA calculation was previously based on an expected counterparty loss calculation using historical default probabilities.

Own credit adjustments

The Bank calculates own credit adjustments to reflect changes in its own credit standing. The Bank's own credit adjustments are calculated on its derivative liabilities by applying the Bank's probability of default to the Group's negative expected exposure against the counterparty. The Bank's probability of default and loss expected in the event of default is derived based on internally assessed credit ratings and market standard recovery levels. The expected exposure is modelled based on simulation methodology and is generated through simulation of underlying risk factors over the life of the deal booked against the particular counterparty. This simulation methodology incorporates the collateral posted by the Bank and the effects of master netting agreements. The methodology used to determine an own credit adjustment on derivative liabilities is consistent with the methodology used to determine credit valuation adjustment (CVA) on derivative assets. The Bank's own credit adjustments will reverse over time as its liabilities mature.

Funding valuation adjustment (FVA)

The Bank makes a FVA against derivative products. FVA reflects an estimate of the adjustment to its fair value that a market participant would make to incorporate funding costs that could arise in relation to the exposure. FVA is calculated by determining the net expected exposure at a counterparty level and then applying a funding rate to those exposures that reflect the market cost of funding. The FVA for collateralised derivatives is based on discounting the expected future cash flows at the relevant overnight indexed swap (OIS) rate after taking into consideration the terms of the underlying collateral agreement with the counterparty. The FVA for uncollateralised (including partially collateralised) derivatives incorporates the estimated present value of the market funding cost or benefit associated with funding these transactions. The FVA calculation was previously based on the Bank's internal funding rates. As at 31 December 2015, the calculation was revised to use market based rates.

30 Accounting classification and fair values (continued)

b) Valuation of financial instruments (continued)

ii) Financial instruments not measured at Fair value – fair value hierarchy:

The table below analyses financial instruments not measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Particulars	Loans and receivables / Amortised cost				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
2017					
Financial assets					
Cash and balances with the Central Bank of the UAE	4,605,342	-	4,605,342	-	**4,605,342**
Loans and advances to banks	3,805,596	-	3,805,596	-	**3,805,596**
Due from the Head Office and branches	3,258,527	-	3,258,527	-	**3,258,527**
Loans and advances to customers	30,164,462	-	-	30,164,462	**30,164,462**
Investment securities	-	-	-	-	-
Other assets (acceptances and other financial assets)	1,586,198	-	1,586,198	-	**1,586,198**
	43,420,125	-	13,255,663	30,164,462	**43,420,125**
Financial liabilities					
Due to banks	958,036	-	958,036	-	**958,036**
Due to the Head Office and branches	4,178,658	-	4,178,658	-	**4,178,658**
Deposits from customers	37,059,402	-	37,059,402	-	**37,059,402**
Other liabilities (acceptances and other financial liabilities)	1,470,909	-	1,470,909	-	**1,470,909**
Subordinated loan	624,407	-	624,407	-	**624,407**
	44,291,412	-	44,291,412	-	**44,291,412**
2016					
Financial assets					
Cash and balances with the Central Bank of the UAE	3,794,498	-	3,794,498	-	3,794,498
Loans and advances to banks	2,648,467	-	2,648,467	-	2,648,467
Due from the Head Office and branches	4,328,099	-	4,328,099	-	4,328,099
Loans and advances to customers	30,069,113	-	-	30,069,113	30,069,113
Investment securities	-	-	-	-	-
Other assets (acceptances and other financial assets)	2,205,553	-	2,205,553	-	2,205,553
	43,045,730	-	12,976,617	30,069,113	43,045,730
Financial liabilities					
Due to banks	3,224,317	-	3,224,317	-	3,224,317
Due to the Head Office and branches	3,412,142	-	3,412,142	-	3,412,142
Deposits from customers	37,043,926	-	37,043,926	-	37,043,926
Other liabilities (acceptances and other financial liabilities)	2,115,744	-	2,115,744	-	2,115,744
Subordinated loan	1,873,133	-	1,873,133	-	1,873,133
	47,669,262	-	47,669,262	-	47,669,262

30 Accounting classification and fair values (continued)

b) Valuation of financial instruments (continued)

iii) Financial hierarchy for instruments at amortised cost

The valuation hierarchy, and the main types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)
Types of financial assets:	Actively traded corporate or other debt	- Cash and balances at central banks - Loans to banks and other financial institutions - Government loans	- Loans and advances to customers - Illiquid or highly structured corporate bonds - Illiquid loans and advances
Types of financial liabilities:	- Quoted debt securities in issue - Quoted subordinated liabilities	- Unquoted debt securities in issue - Unquoted subordinated liabilities - Time deposits by customers - Deposits by banks	- Illiquid or highly structured debt securities in issue

31 Derivative financial instruments

The Bank enters into a variety of derivative financial instruments for trading and risk management purposes. Derivative financial instruments used by the Bank include swaps, foreign exchange forward contracts and commodity contracts.

Swaps are agreements between the Bank and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Bank are interest rate swaps. Under interest rate swaps, the Bank agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.

Foreign exchange forward contracts are commitments to either purchase or sell foreign currencies at a specified future date for a specified price.

The Bank is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavourable movements in interest rates relative to the contractual rates. However, market risk in most of the cases is covered through back-to-back deals to square the Bank's position.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity.

				Notional amount by term to maturity			
	Positive fair value	**Negative fair value**	**Notional Amount**	**Within 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**
	AED 000	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**
2017							
Interest rate contracts	205,091	213,519	22,385,073	412,001	1,894,658	14,638,814	5,439,600
Foreign exchange contracts	735,836	716,227	175,813,090	103,484,534	56,992,021	14,295,388	1,041,147
Commodity contracts	105,311	105,733	1,019,208	209,873	341,109	468,226	-
Equity Derivatives	2,893	4,524	100,894	13,775	25,711	61,408	-
Derivatives held as cash flow hedges:							
Interest rate contracts	-	3,732	467,299	-	-	467,299	-
Derivatives held as fair value hedges:							
Interest rate contracts	7,864	13,630	3,860,252	-	1,639,988	2,220,264	-
2017 Total	**1,056,995**	**1,057,365**	**203,645,816**	**104,120,183**	**60,893,487**	**32,151,399**	**6,480,747**
2016 Total	1,652,589	1,644,258	209,458,220	110,229,526	53,594,935	33,976,834	11,656,925

32 Significant net open positions

As at the reporting date, the Bank had significant net open currency exposures in the following currencies:

	Long / (Short Position)	
	2017	2016
	AED 000	AED 000
United States Dollar (USD)	**(813)**	481,591
Bahraini Dinar (BHD)	**(10,186)**	12,202
Euro (EUR)	**34,220**	23,909
Kuwaiti Dinars (KWD)	**(7,651)**	(418,753)
Saudi Riyals (SAR)	**22,828**	(18,880)
United Kingdom Pounds (GBP)	**2,536**	(124,594)
Swiss Francs (CHF)	**(312)**	191
Japanese Yen (JPY)	**3,951**	9,386
Hong Kong Dollar (HKD)	**501**	501
Other currencies (net)	**(50,746)**	30,867

33 Lease commitments

At the year-end, annual commitments under non-cancellable operating leases were as follows:

	2017	2016
	AED 000	AED 000
Within one year	**48,093**	50,605
Later than one year and less than five years	**149,248**	148,902
After five years	**159,898**	203,664
	357,239	403,171

During the current year, AED 53.6 million (2016: AED 62.3 million) was charged to statement of profit and loss in respect of operating leases.

34 Comparative figures

Certain comparative figures have been re-classified where necessary to conform to the current year's presentation. Management believes that their impact is limited to the disclosures and presentation requirements only.