

Tamweel P.S.C. and its subsidiaries

**Report and consolidated financial statements
for the year ended 31 December 2016**

These audited consolidated financial statements are subject to approval of the Central Bank of U.A.E and adoption by shareholders at the annual general meeting.

Tamweel P.S.C. and its subsidiaries

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for the year ended 31 December 2016**

	Pages
Independent auditor's report	1 - 6
Consolidated statement of financial position	7
Consolidated income statement	8
Consolidated statement of comprehensive income	9
Consolidated statement of changes in equity	10 - 11
Consolidated statement of cash flows	12
Notes to the consolidated financial statements	13 - 51

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Tamweel PSC
Dubai
United Arab Emirates

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of **Tamweel P.S.C.** (the “Company”) **and its Subsidiaries** (together the “Group”), **Dubai, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and their consolidated financial performance and their consolidated 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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities requirements 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.

Key audit matters

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
Impairment losses on Islamic financing and investing assets	
<p>We focused on this area because it requires management and those charged with governance to make significant judgements, such as the identification of Islamic financing and investing assets that are deteriorating, the assessment of objective evidence of impairment, the assessment of the recoverable amount and the value of collateral. Due to the significance of Islamic financing and investing assets, net (representing 82% of total assets) and the related estimation uncertainty, we consider this a key audit matter.</p> <p>It is the judgements for collective provisioning which are the most significant as they are the most sensitive to adjustment. The two key judgements in the collective provisioning assessment are the likelihood of default and the emergence period and it is the earlier which is the single most critical judgement as there is limited historic data on which to accurately assess it.</p> <p>For retail Islamic financing and investing assets, the material portion of impairment is calculated on a modelled basis for portfolios. The inputs to these models are subject to management judgements.</p> <p>The Group's corporate individual provisions are also subjective as a result of judgements needed. The key judgement for individual provisions on these portfolios is the recoverable value of underlying collateral.</p> <p>Management also applies adjustments, or overlays, where they believe the data driven parameters and calculation are not appropriate. These overlays and adjustments require significant judgement.</p>	<p>Our audit procedures included the assessment of controls over the approval, recording and monitoring of Islamic financing and investing assets, and evaluating the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments and assessing the adequacy of impairment allowances for individually assessed Islamic financing and investing assets.</p> <p>We tested the design and operating effectiveness of relevant controls to determine which Islamic financing and investing assets are impaired and allowances against those assets.</p> <p>We tested samples of Islamic financing and investing assets to assess whether impairment events had been identified in a timely manner.</p>

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Information Technology systems and controls over financial reporting	
<p>Failure of not having appropriate IT systems and controls in place may lead to severe consequences on business continuance and the financial reporting process.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> ▪ Reviewing major IT systems and applications. ▪ Reviewing general computer controls for key IT systems; ▪ Assessing IT security environment using our certified IT system auditors; and ▪ Focused on key controls testing on significant IT systems relevant to business processes.
Impairment of investment properties	
<p>Investment properties and their fair valuation disclosure and impairment assessment can be affected by:</p> <ul style="list-style-type: none"> ▪ Using incorrect methodology to conduct impairment assessment; ▪ Not factoring increased supply or competition resulting in lower occupancy or lower rental yields, not including administrative costs or costs that are directly associated with the revenue-earning properties. 	<p>We have reviewed the impairment assessment and the valuation processes and internal controls. We have tested the valuation models, for their accuracy and evaluate any external independent valuations, and assessed the valuation assumptions used in valuations for impairment testing.</p>

INDEPENDENT AUDITOR'S REPORT (continued)

Other information

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Group. We obtained Board of Directors' report prior to the date of this auditor's report, and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not and we will not express any form of assurance conclusion thereon.

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

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

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the Consolidated Financial Statements

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

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

The Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the Consolidated Financial Statements

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

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's responsibilities for the audit of the Consolidated Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Group and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on other legal and regulatory requirements

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

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Board of Directors' report is consistent with the Group's books of account;
- v) Note 8 to the consolidated financial statements of the Group discloses its investments in equity instruments during the financial year ended 31 December 2016;
- vi) Note 29 to the consolidated financial statements reflects material related party transactions, and the terms under which they were conducted.
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016; and
- viii) Note 12 to the consolidated financial statements reflects the social contributions made during the year.

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 purpose of our audit.

Deloitte & Touche (M.E.)



Musa Ramahi
Registration No. 872
18 January 2017
Dubai
United Arab Emirates

**Consolidated statement of financial position
as at 31 December 2016**

	Notes	2016 AED'000	2015 AED'000
ASSETS			
Bank balances and cash	6	196,847	132,346
Islamic financing and investing assets, net	7	3,825,686	4,700,080
Other investments carried at FVTOCI	8	49,972	44,355
Investment properties	9	552,433	463,295
Advances, prepayments and other receivables	10	43,065	28,761
Fixed assets	11	13,980	15,035
TOTAL ASSETS		4,681,983	5,383,872
LIABILITIES AND EQUITY			
Liabilities			
Zakat payable	12	3,191	3,045
Accounts payable, accruals and other liabilities	13	117,702	169,640
Financing obligations	14	2,027,500	2,752,500
Total liabilities		2,148,393	2,925,185
Equity			
Share capital	15	1,000,000	1,000,000
Statutory reserve	16	241,041	230,719
General reserve	17	538,980	538,980
Special reserve	18	102,951	102,951
Investment fair value reserve		31,311	31,436
Retained earnings		619,307	554,601
Total equity		2,533,590	2,458,687
TOTAL LIABILITIES AND EQUITY		4,681,983	5,383,872


Varun Sood
Acting Chief Executive Officer


Abdullah Ali Al Hamli
Chairman

The accompanying notes form an integral part of these consolidated financial statements.

**Consolidated income statement
for the year ended 31 December 2016**

	Notes	2016 AED'000	2015 AED'000
Income from Islamic financing and investing assets	19	206,093	267,131
Other income	20	109,563	45,725
Operating income		315,656	312,856
General and administrative expenses	21	(102,018)	(73,859)
Impairment and other provisions, net	22	5,000	(1,490)
Profit before depositors'/investors' share of profit and related costs		218,638	237,507
Depositors'/investors' share of profit and related costs	23	(115,419)	(157,513)
Profit for the year		103,219	79,994

The accompanying notes form an integral part of these consolidated financial statements.

**Consolidated statement of comprehensive income
for the year ended 31 December 2016**

	2016 AED'000	2015 AED'000
Profit for the year	103,219	79,994
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Fair value loss on other investments carried at FVTOCI	(125)	(5,168)
Total comprehensive income for the year	103,094	74,826

The accompanying notes form an integral part of these consolidated financial statements.

**Consolidated statement of changes in equity
for the year ended 31 December 2016**

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Special reserve AED'000	Investment fair value reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2016	1,000,000	230,719	538,980	102,951	31,436	554,601	2,458,687
Profit for the year	-	-	-	-	-	103,219	103,219
Other comprehensive loss for the year	-	-	-	-	(125)	-	(125)
Total comprehensive income for the year	-	-	-	-	(125)	103,219	103,094
Dividend paid (Note 31)	-	-	-	-	-	(25,000)	(25,000)
Transfer to statutory reserve (Note 16)	-	10,322	-	-	-	(10,322)	-
Zakat (Note 12)	-	-	-	-	-	(3,191)	(3,191)
Balance at 31 December 2016	1,000,000	241,041	538,980	102,951	31,311	619,307	2,533,590

The accompanying notes form an integral part of these consolidated financial statements.

**Consolidated statement of changes in equity (continued)
for the year ended 31 December 2016**

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Special reserve AED'000	Investment fair value reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2015	1,000,000	222,720	538,980	102,951	36,604	535,651	2,436,906
Profit for the year	-	-	-	-	-	79,994	79,994
Other comprehensive loss for the year	-	-	-	-	(5,168)	-	(5,168)
Total comprehensive income for the year	-	-	-	-	(5,168)	79,994	74,826
Dividend paid (Note 31)	-	-	-	-	-	(50,000)	(50,000)
Transfer to statutory reserve (Note 16)	-	7,999	-	-	-	(7,999)	-
Zakat (Note 12)	-	-	-	-	-	(3,045)	(3,045)
Balance at 31 December 2015	1,000,000	230,719	538,980	102,951	31,436	554,601	2,458,687

The accompanying notes form an integral part of these consolidated financial statements.

**Consolidated statement of cash flows
for the year ended 31 December 2016**

	2016 AED'000	2015 AED'000
Operating activities		
Profit for the year	103,219	79,994
Adjustments for:		
Depreciation of fixed assets	1,055	2,203
Depreciation on investment properties	18,161	7,051
Amortisation of deferred cost	1,750	1,750
Provision for employees' end of service benefits	1,851	2,465
Release of impairment on Islamic financing and investing assets	(5,000)	-
Reversal of impairment and other provisions	-	(4,368)
Written off fixed assets	-	(2,132)
Depositors'/investors' share of profit and related costs	113,669	155,763
Income on mudaraba deposits and wakala investments	(1,491)	(1,385)
Gain on disposal of investment properties	(2,179)	(134)
Operating cash flows before changes in operating assets and liabilities	231,035	241,207
Decrease in Islamic financing and investing assets	745,140	1,246,174
(Increase)/decrease in advances, prepayments and other receivables	(16,076)	29,922
Decrease in financing obligations	(725,000)	(1,275,000)
Decrease in accounts payable, accruals and other liabilities	(55,704)	(54,270)
Cash generated from operations	179,395	188,033
Depositors'/investors' share of profit and related cost paid	(110,724)	(159,763)
Employees' end of service benefits paid	(1,030)	(2,736)
Zakat paid	(3,045)	(5,063)
Dividend paid	(25,000)	(50,000)
Net cash generated from/(used in) operating activities	39,596	(29,529)
Investing activities		
Investments in shares	(5,742)	-
Income received on mudaraba deposits and wakala investments	1,513	1,267
Proceeds from sale of investment properties	29,134	1,390
Net cash generated from investing activities	24,905	2,657
Net increase/(decrease) in cash and cash equivalents	64,501	(26,872)
Cash and cash equivalents at beginning of the year	61,232	88,104
Cash and cash equivalents at end of the year (Note 6)	125,733	61,232
Non-cash transaction:		
Additions to investment properties (Note 9)	134,255	92,138

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2016

1. General information

Tamweel P.S.C. (the “Company”) was registered on 3 June 2006 as a Public Joint Stock Company and converted from Public to Private Joint Stock Company with effect from 27 August 2014. The parent and ultimate holding Company is Dubai Islamic Bank P.J.S.C. (“DIB” or the “Parent Company”). The share capital of the Company comprises 1,000,000,000 shares of AED 1 each.

The Company is licensed by the U.A.E. Central Bank as a finance company and is primarily engaged in Islamic Sharia’a compliant financing and investment activities such as Ijara, Murabaha, Istisna’a etc. The activities of the Company and its Subsidiaries (together the “Group”) are conducted in accordance with Islamic Sharia’a, which prohibits usury, and within the provisions of its Articles and Memorandum of Association. The Group also generates leasing income from its investment properties.

The registered head office of the Group is located at Al Gurg Tower 3, Riggat Al Buteen, Emirate of Dubai, U.A.E.

The Group consists of Tamweel P.S.C. and its subsidiaries registered up to 31 December 2016, as listed below:

Subsidiaries	Beneficial ownership	Principal activity	Country of incorporation
Tamweel Property (1) Limited	100%	SPE for purchase of assets	D.I.F.C., U.A.E.
Tamweel Funding III Limited	100%	SPE for issuance of sukuk	Cayman Islands
Tamweel ESOT Limited	100%	SPE for investment in shares	British Virgin Islands

In April 2015, the Dubai Islamic Bank P.J.S.C. made an offer to the holders of non-controlling interest of Tamweel to acquire their shares, DIB acquired further 5.5% shares thereby increasing the DIB’s ownership to 92% as at 31 December 2016.

2. Application of new and revised International Financial Reporting Standards (IFRS)

2.1 New and revised IFRS applied with no material effect on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2016, have been adopted in these consolidated financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- IFRS 14 *Regulatory Deferral Accounts*.
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure Initiative.
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* relating to bearer plants.
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.1 New and revised IFRS applied with no material effect on the consolidated financial statements (continued)

- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities.
- Annual Improvements to IFRS 2012-2014 Cycle covering amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures* and IAS 19 *Employee Benefits*.

2.2 New and revised IFRS in issue but not yet effective and not early adopted

The Group has not yet early applied the following new standard, amendments and interpretations that have been issued but are not yet effective:

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
• Amendments to IAS 12 relating to recognition of <i>Deferred Tax Assets for Unrealised Losses</i> .	1 January 2017
• Amendments to IAS 7 <i>Statement of Cash Flows</i> to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
• Finalised version of IFRS 9 [IFRS 9 Financial Instruments (2014)] was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.	1 January 2018
➤ Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.	
➤ Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.	
➤ Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	

A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

**2. Application of new and revised International Financial Reporting Standards (IFRS)
(continued)**

2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
<ul style="list-style-type: none"> IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> The interpretation addresses foreign currency transactions or parts of transactions where: <ul style="list-style-type: none"> ➤ there is consideration that is denominated or priced in a foreign currency; ➤ the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and ➤ the prepayment asset or deferred income liability is non-monetary. 	1 January 2018
<ul style="list-style-type: none"> IFRS 15 <i>Revenue from Contracts with Customers</i>: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. 	1 January 2018
<ul style="list-style-type: none"> Amendments to IAS 40 <i>Investment Property</i>: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive. 	1 January 2018
<ul style="list-style-type: none"> IFRS 16 <i>Leases</i> provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. 	1 January 2019
<ul style="list-style-type: none"> Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. 	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

The application of the finalised version of IFRS 9 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application until the Group performs a detailed review.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3. Definitions of significant terms

The following terms are used in these consolidated financial statements with the meaning specified hereunder:

Sharia'a

Sharia'a is the body of Islamic law and is essentially derived from The Quran and The Sunna'h. The Group, being an Islamic Financial Institution, incorporates the principles of Sharia'a in its activities, as interpreted by its Sharia'a Supervisory Board.

Ijara

Ijara (Ijara Muntahia Bittamleek) is an agreement whereby the Group (in its capacity as a lessor,) leases an asset to the customer (as lessee), after acquiring the specified asset according to the customer's request, against certain rental payments for specified lease term. The duration of the lease term, as well as the basis for rental, are set and agreed in advance. The Group retains legal ownership of the asset throughout the arrangement. The arrangement could end by transferring the ownership of the asset to the lessee.

Istisna'a

Istisna'a is a sale contract whereby the Group undertakes to construct for the customer, a specific asset or property according to certain agreed upon specifications at a pre-determined price and for a fixed date of delivery. The work undertaken is not restricted to be accomplished by the Group alone and the whole or part of the construction can be undertaken by third parties under the Group's control and responsibility.

Murabaha

Murabaha is an agreement whereby the Group makes a sale to a customer of an asset that is acquired principally based on a promise received from the customer to buy the relevant asset according to the relevant specific terms and conditions. While making the sale, the Group expressly mentions the costs incurred on the asset that are sold and the profit thereon, to the customer.

Forward Ijara

Forward Ijara (Ijara Mausoofoa Fiz Zimma) is an arrangement whereby the Group agrees to provide, on a specified future date, certain described property on lease to the customer upon its completion and delivery by the developer, from whom the Group has purchased the property. The lease rental under Forward Ijara commences only upon the customer having received possession of the property from the Group. The arrangement could end by transferring the ownership of the asset to the lessee.

Mudaraba

Mudaraba is an agreement in which the customer contributes capital and the Group applies its effort. The proportionate share of profit is determined by mutual agreement. The loss, if any, unless caused by negligence or violation of the terms of the agreement, is borne only by the owner of the capital in which case the Group gets nothing for its efforts. The fund provider is known as 'Rab-Al-Mal' and the Group as 'Mudareb'.

Wakala

An agreement whereby the Group provides a certain sum of money to an investment agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or percentage of the amount invested). The agent may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. The agent is obliged to return the invested amount in case of default, negligence or violation of the terms and conditions of the Wakala.

Sukuk

These comprise asset based, Sharia'a compliant trust certificates.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

4. Significant accounting policies

4.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws.

The UAE Federal Law No. 2 of 2015 ("Companies Law") has come into force on 1 July 2015. The Company has twenty four months from the effective date of the Companies Law to comply with its provisions (the "transitional provisions") and the Company has availed of these transitional provisions.

4.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

The principal accounting policies are set out below.

4.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group. Control is achieved where the Group has:

- power over an investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the investor's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

4. Significant accounting policies (continued)

4.3 Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the financial period are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributable to the owners of the Parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4.4 Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably. Revenue is recognised in the consolidated income statement as follows:

Ijara income

Ijara income is recognised on an effective profit rate basis over the lease term based on the fixed rental amount outstanding.

Murabaha income

Murabaha income is recognised on an effective profit rate basis over the period of the contract based on the net Murabaha amount outstanding.

Istisna'a income

Istisna'a associated profit margin (difference between the cash price of al-masnoo to the customer and the Group's total Istisna'a cost) is accounted for on an effective profit rate basis over the construction period.

Forward Ijara income

Forward Ijara income during the construction period of the properties is accounted for on an effective profit rate basis over the construction period on account of rentals. Upon completion of the properties, income is recognised on an effective profit rate basis over the period of the contract based on the fixed rental amount outstanding.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

4. Significant accounting policies (continued)

4.4 Revenue recognition (continued)

Processing fees

Processing fees are recognised when the related services are provided.

Other income

Income earned on mudaraba deposits and wakala investments is recognised on an effective profit rate basis. All other income is recognised when the right to receive the income is established.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

4.5 Financial instruments

Financial assets and liabilities are recognised when a Group's entity becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

4.5.1 Financial assets

All financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset, except for those financial assets measured subsequently at fair value through profit or loss, which are initially measured at fair value.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

Classification of financial assets

An instrument is classified as an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are classified as 'debt instruments'.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

4. Significant accounting policies (continued)

4.5 Financial instruments (continued)

4.5.1 Financial assets (continued)

Financial assets measured at amortised cost

Financial assets (other than equity instruments) are measured at amortised cost if both of the following conditions are met:

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

Financial assets (other than equity instruments) meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at fair value through profit or loss - FVTPL). They are subsequently measured at amortised cost using the effective profit method less any impairment, with profit revenue recognised on an effective profit method in the consolidated statement of income.

Subsequent to initial recognition, the Group is required to reclassify debt instruments from amortised cost to FVTPL if the objective of the business model changes so that the amortised cost criteria is no longer met.

The Group may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair value, within equity. Where the asset is disposed of, the cumulative gain or loss previously accumulated is not transferred to the consolidated statement of income, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the consolidated statement of income when the Group's right to receive the dividend is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

4. Significant accounting policies (continued)

4.5 Financial instruments (continued)

4.5.1 Financial assets (continued)

Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (see above).

Financing and investing instruments that do not meet the amortised cost criteria (see above) are measured at FVTPL. In addition, financing and investing instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. Financing and investing instruments may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any financing and investing instrument as at FVTPL.

Non-equity instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financing and investing instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue* and is included in the consolidated income statement.

Impairment of financial assets

Financial assets (including financing and investing assets and other assets) that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets measured at amortised cost are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in profit or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective profit rate.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

4. Significant accounting policies (continued)

4.5 Financial instruments (continued)

4.5.1 Financial assets (continued)

Impairment of financial assets (continued)

The carrying amount of the financial asset measured at amortised cost is reduced by the impairment loss directly for all financial assets with the exception of Islamic financing and investing assets, where the carrying amount is reduced through the use of an allowance account. When the Islamic financing and investing assets are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

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, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Effective profit method

The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating profit income over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective profit rate basis for debt instruments other than those financial assets designated as at FVTPL.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less.

Islamic financing and investing assets

Islamic financing and investing assets include outstanding Ijara fixed rentals, Murabaha sales receivables net of deferred profits, Istisna'a costs incurred to date measured at cash equivalent value and forward Ijara at costs incurred to date. Also included in the Islamic financing and investing assets are Ijara and Forward Ijara profit accruals in addition to Istisna'a and Murabaha amortised profits. These assets are stated at cost net of provisions for impairment and profit suspension, if any.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

4. Significant accounting policies (continued)

4.5 Financial instruments (continued)

4.5.1 Financial assets (continued)

Islamic financing and investing assets (continued)

Individually assessed Islamic financing and investing assets

Individually assessed Islamic financing and investing assets are assets which are assessed individually in order to determine whether there exists any objective evidence that an Islamic financing and investing asset is impaired. Islamic financing and investing assets are classified as impaired as soon as there is doubt about the customer's ability to meet payment obligations to the Group in accordance with the original contractual terms. Doubts about the customer's ability to meet payment obligations generally arise when:

- Principal and profit are not serviced as per contractual terms; and
- When there is significant deterioration in the customer's financial condition and the amount expected to be realised from disposals of collaterals, if any, are not likely to cover the present carrying value of the Islamic financing and investing assets.

Incurred but not yet identified

Individually assessed Islamic financing and investing assets for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group may have incurred as a result of events occurring before the consolidated financial position date, which the Group is not able to identify on an individual basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual Islamic financing and investing assets within the group of the customer, those Islamic financing and investing assets are removed from the group of the customer and assessed on an individual basis for impairment.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve in equity is not reclassified to the consolidated income statement, but is transferred to retained earnings within equity.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

4. Significant accounting policies (continued)

4.5 Financial instruments (continued)

4.5.2 Financial liabilities and equity instruments

Classification as liability or equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective profit rate method.

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective profit rate method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement.

4.6 Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation on investment in buildings is charged on a straight-line basis over 20 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is change in used evidenced by commencement of owner-occupation or commencement of development with a view to sale.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

4. Significant accounting policies (continued)

4.7 Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment in value, if any.

Depreciation is calculated on a straight line basis over the estimated useful life of 20 years for the building.

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset is written down to its recoverable amount, being the higher of its fair value less costs to sell and its value in use.

Expenditure incurred to replace a component of an item of fixed assets that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of fixed assets. All other expenditure is recognised in the consolidated statement of comprehensive income as the expense is incurred.

4.8 Repossessed properties

In certain circumstances, property is repossessed following the foreclosure on financing that are in default. Repossessed properties are initially recognised at fair value and included within 'Investment properties'.

4.9 Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

4. Significant accounting policies (continued)

4.10 Zakat

Zakat is computed as per the Articles and Memorandum of Association of the Company and its subsidiaries and is approved by the Fatwa and Sharia'a Supervisory Boards of the respective entities on the following basis:

- Zakat on shareholders' equity is computed at 2.5775% of the aggregate of general and legal reserves, retained earnings, other reserves and provision for staff gratuity. DIB computes and pays Zakat on its consolidated financial position including its equity in Tamweel P.S.C. Accordingly no Zakat is considered in these consolidated financial statements in respect of shareholders' equity pertaining to DIB P.J.S.C.
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board.
- Zakat on the paid up capital is not included in the Zakat computations and is payable by the shareholders personally.

4.11 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

4.12 Employees' end-of-service benefits

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

The Group provides end of service benefits for its expatriate employees. Provision for employees' end of service indemnity is made in accordance with the Company's policy which meets the requirements of U.A.E. labour laws, and is based on current remuneration and cumulative years of service at the reporting date.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

4. Significant accounting policies (continued)

4.13 Foreign currencies

Transactions in foreign currencies are recorded at rates of exchange prevailing at the dates of the transactions.

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange component forms part of its fair value gain or loss. For financial assets measured at FVTPL, the foreign exchange component is recognised in the consolidated statement of income. For financial assets measured at FVTOCI any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost, the foreign exchange gains and losses are determined based on the amortised cost of the asset and are recognised in other income in the consolidated statement of income.

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into Arab Emirates Dirhams at the rate of exchange ruling at the consolidated statement of financial position date and, their consolidated statement of comprehensive incomes are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular entity is recognised in the consolidated statement of income.

4.14 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

4. Significant accounting policies (continued)

4.15 Fair values

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business on the consolidated statement of financial position date. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted securities fair value is determined by reference to brokers' quotes, recent transaction(s), the market value of similar securities, or based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics.

For investments in properties, fair value is determined periodically on the basis of independent professional valuations.

4.16 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to settle on a net basis.

5. Critical accounting judgments and key sources of estimation of uncertainty

In the application of the Group's accounting policies, which are described in Note 4, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

5.1 Impairment losses on Islamic financing and investing assets

The impairment allowance for Islamic financing and investing assets is established through charges to the consolidated income statement in the form of an impairment allowance for doubtful Islamic financing and investing assets.

Individually assessed Islamic financing and investing assets

Impairment losses for individually assessed Islamic financing and investing assets are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all Islamic financing and investing assets which are individually significant accounts or are not subject to the portfolio-based-approach.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Critical accounting judgments and key sources of estimation of uncertainty (continued)

5.1 Impairment losses on Islamic financing and investing assets (continued)

Individually assessed Islamic financing and investing assets (continued)

The following factors are considered by management when determining allowance for impairment on individual Islamic financing and investing assets which are significant:

- The amount expected to be realised on disposals of collaterals;
- The Group's ability to enforce its claim on the collaterals and associated cost of litigation; and
- The expected time frame to complete legal formalities and disposals of collaterals.

The Group's policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired Islamic financing and investing assets continue to be classified as impaired unless they are brought fully current and the collection of scheduled profit and principal is considered probable.

Collective impairment provisions on Islamic financing and investing assets

In addition to specific provisions against individually significant Islamic financing and investing assets, the Group also makes collective impairment provisions against facilities which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted.

5.2 Classification of financial assets

The classification and measurement of the financial assets depend on the management business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Management is satisfied that the Group's financial assets 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 asset in order to collect contractual cash flow and the contractual terms gives rise on specified dates to cash flow that are solely payments of principal and profit.

The Group classifies investments carried at fair value through profit or loss, if they are acquired primarily for the purpose of making a short term profit by the dealers.

All other investments are classified as carried at fair value through other comprehensive income.

5.3 Investment properties

Investment properties is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

6. Bank balances and cash

	2016 AED'000	2015 AED'000
Bank balances	196,837	132,336
Cash on hand	10	10
Bank balances and cash	<u>196,847</u>	<u>132,346</u>

Bank balances are held with banks within the U.A.E. and are profit generating at an average profit rate of 0.25% p.a. (2015: 0.25% p.a.).

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2016 AED'000	2015 AED'000
Bank balances and cash	196,847	132,346
Less: Deposit with original maturity over 3 months*	(71,114)	(71,114)
Cash and cash equivalent	<u>125,733</u>	<u>61,232</u>

* Includes a deposit of AED 66 million held under lien in accordance with the issuance requirements of the sukuk issued by Tamweel Funding III Limited.

7. Islamic financing and investing assets, net

	2016 AED'000	2015 AED'000
Ijara and forward Ijara (constructed and handed over properties)	3,699,744	4,597,306
Gross murabaha investments and mudaraba receivables	293,005	296,036
Less: Deferred profit	(6,125)	(6,149)
Net murabaha investments and mudaraba receivables	286,880	289,887
Istisna'a and forward Ijara (under construction properties)	344,911	361,874
	<u>631,791</u>	<u>651,761</u>
	4,331,535	5,249,067
Less: Profit suspended	(143,441)	(166,458)
Less: Provision for impairment	(362,408)	(382,529)
	<u>3,825,686</u>	<u>4,700,080</u>

(a) All the assets financed by the Group are within the U.A.E. Islamic financing and investing assets include accrued profits net of profit suspended amounting to AED 52 million (31 December 2015: AED 60 million).

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

7. Islamic financing and investing assets (continued)

- (b) Included under Islamic financing and investing assets are receivables amounting to AED 396 million (31 December 2015: AED 295 million) whereby the Group has obtained the clear legal title to the properties financed, and is in the process of finalising formalities for possession of these properties. Such receivables are carried at current market values of the properties and a full provision has been made for the remaining exposure. Once the formalities are completed, these are transferred to 'Investment Properties' within the consolidated statement of financial position. During the year, properties with fair value of AED 134 million (2015: AED 92 million) were transferred to investment properties upon completion of the formalities of the foreclosure cases.

Provisions for impairment

Movements in the provision for impairment were as follows:

	2016 AED'000	2015 AED'000
Balance at beginning of the year	382,529	431,755
Provision released during the year (Note 22)	(5,000)	-
Provision written off during the year	(15,121)	(49,226)
Balance at end of the year	<u>362,408</u>	<u>382,529</u>

Collateral

The Group enters into collateral arrangements with counter parties in appropriate circumstances to limit credit exposure. Under Ijara financing structure, the legal ownership of the finance property is maintained with the Group until the customer (lessee) has fulfilled all his obligations under the relevant Ijara agreement.

The fair value of the collaterals that the Group holds relating to facilities individually determined to be impaired at 31 December 2016 amounting to AED 1,150 million (2015: AED 1,409 million).

8. Other investments carried at FVTOCI

	2016 AED'000	2015 AED'000
<i>Investments measured at FVTOCI</i>		
Balance at the beginning of the year	44,355	49,523
Purchased during the year	5,742	-
Change in fair value	(125)	(5,168)
Balance at the end of the year	<u>49,972</u>	<u>44,355</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

9. Investment properties

	Land AED'000	Other real estate AED'000	Investment properties under construction AED'000	Total AED'000
Cost				
At 1 January 2016	367,446	317,457	9,566	694,469
Additions during the year		134,255	-	134,255
Disposal	-	(31,070)	-	(31,070)
At 31 December 2016	367,446	420,642	9,566	797,654
Accumulated depreciation and impairment				
At 1 January 2016	150,888	78,545	1,741	231,174
Charge for the year	-	18,161	-	18,161
Disposal	-	(4,114)	-	(4,114)
At 31 December 2016	150,888	92,592	1,741	245,221
Carrying amount				
At 31 December 2016	216,558	328,050	7,825	552,433
Cost				
At 1 January 2015	339,811	114,459	149,531	603,801
Additions during the year	27,635	64,503	-	92,138
Reclassification	-	139,965	(139,965)	-
Disposal	-	(1,470)	-	(1,470)
At 31 December 2015	367,446	317,457	9,566	694,469
Accumulated depreciation and impairment				
At 1 January 2015	150,888	42,079	31,370	224,337
Charge for the year	-	7,051	-	7,051
Reclassification	-	29,629	(29,629)	-
Disposal	-	(214)	-	(214)
At 31 December 2015	150,888	78,545	1,741	231,174
Carrying amount				
At 31 December 2015	216,558	238,912	7,825	463,295

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

9. Investment properties (continued)

The valuations are carried out by professional valuers not related to the Group who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. The valuations were based on comparable transaction method that is made on the principle that the value of one property may be derived by comparing it with the prices achieved from transactions in similar properties.

The fair value of the Group's investment properties as at 31 December 2016 is AED 922 million (2015: AED 709 million). The fair value is mainly based on unobservable market inputs (i.e. level 3).

During 2016, the investment properties under other real estate properties generated a rental income of AED 9.3 million (2015: AED 5.6 million). Investment properties include AED 134 million (2015: AED 92 million), which were repossessed during the year following foreclosure.

10. Advances, prepayments and other receivables

	2016 AED'000	2015 AED'000
Administration fee receivable	17,234	15,852
Portfolio management fee receivable	4,626	-
Commission receivable	4,322	4,322
Deferred cost	-	1,750
Other	21,322	11,276
	<u>47,504</u>	<u>33,200</u>
Less: Provision for impairment	(4,439)	(4,439)
	<u>43,065</u>	<u>28,761</u>
Provision for impairment		
Balance at beginning of the year	4,439	4,715
Provision written off during the year	-	(276)
Balance at end of the year	<u>4,439</u>	<u>4,439</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

11. Fixed assets

	Building AED'000
Cost	
At 1 January 2015	21,102
At 31 December 2015	21,102
At 31 December 2016	21,102
Accumulated depreciation	
At 1 January 2015	5,012
Charge for the year	1,055
At 31 December 2015	6,067
Charge for the year	1,055
At 31 December 2016	7,122
Carrying amount	
At 31 December 2016	13,980
At 31 December 2015	15,035

During the year 2015, the Group has written off leasehold improvements, furniture and fixtures, software licenses, networks and computer equipment with the carrying value of AED 2.1 million.

12. Zakat payable

Zakat is computed as per the Articles and Memorandum of Association of the Company and its subsidiaries and is approved by the Fatwa and Sharia'a Supervisory Boards. As at 31 December 2016 amount of AED 3 million (31 December 2015: AED 3 million) is accrued in relation to Zakat. During the year AED 3 million was paid.

13. Accounts payable, accruals and other liabilities

	2016 AED'000	2015 AED'000
Profit payable on financing obligations	29,223	26,278
Accounts payable	29,699	41,645
Developer and property payables	11,062	11,041
Unclaimed dividends	18,318	18,320
Employees' end of service benefits (see note 13.1 below)	10,389	9,568
Provision for litigation losses	-	44,623
Accrual and other liabilities	19,011	18,165
	117,702	169,640

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

13. Accounts payable, accruals and other liabilities (continued)

13.1 Employees' end of service benefits

	2016 AED'000	2015 AED'000
Balance at beginning of the year	9,568	9,839
Charge for the year	1,851	2,465
Paid during the year	(1,030)	(2,736)
	<u>10,389</u>	<u>9,568</u>

14. Financing obligations

	2016 AED'000	2015 AED'000
Wakalas	925,000	1,650,000
Sukuk	1,102,500	1,102,500
	<u>2,027,500</u>	<u>2,752,500</u>

Wakalas

Short term Wakala investments are received from Dubai Islamic Bank P.J.S.C. The effective average profit rate on these Wakalas is 4% p.a. (31 December 2015: 4% p.a.).

Sukuk

The Trust certificates issued in January 2012 ("Sukuk") for US\$ 300 million, through Tamweel Funding III Limited are listed on the Irish Stock Exchange. The Sukuk is structured to conform to principles of Islamic Sharia'a, matures in 2017 and has a profit rate of 5.15% p.a., payable semi-annually in arrears.

15. Share capital

	2016 AED'000	2015 AED'000
Authorised, issued and paid up 1,000,000,000 ordinary shares of AED 1 each (31 December 2015: 1,000,000,000 ordinary shares of AED 1 each)	<u>1,000,000</u>	<u>1,000,000</u>

16. Statutory reserve

As required by the Commercial Companies Law and the Company's Articles of Association, 10% of the profit for the year is transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. This reserve is not available for distribution except in the circumstances as stipulated by U.A.E. Commercial Companies Law.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

17. General reserve

As per the Company's Articles of Association, deductions for the general reserve shall stop by resolution of an Ordinary General Assembly upon the recommendation of the Board of Directors when this reserve reaches 50% of the paid up capital of the Company. The Board of Directors have not proposed any transfer to General Reserve as the reserve is in excess of the 50% of the paid up capital of the Company. This reserve shall be utilised for the purpose determined by the General Assembly at an ordinary meeting upon the recommendation of the Board of Directors.

18. Special reserve

The special reserve, which was created in accordance with the recommendations of the U.A.E. Central Bank, is not available for distribution.

19. Income from Islamic financing and investing assets

	2016 AED'000	2015 AED'000
Ijara and Forward Ijara (constructed and handed over properties)	193,471	244,404
Istisna'a and Forward Ijara (under construction properties)	389	7,758
Murabaha and Mudaraba	165	337
Processing and other fee income	12,068	14,632
	<u>206,093</u>	<u>267,131</u>

20. Other income

	2016 AED'000	2015 AED'000
Income on mudaraba deposits and wakala investments	1,491	1,385
Takaful income	12,149	13,975
Portfolio management fee (Note 29)	18,504	18,504
Rental income from investment properties (Note 9)	9,289	5,600
Other*	68,130	6,261
	<u>109,563</u>	<u>45,725</u>

* Other includes a reversal of litigation provision amounting to AED 45 million (2015: AED Nil).

21. General and administrative expenses

	2016 AED'000	2015 AED'000
Staff costs	51,784	55,848
Legal and professional charges	24,004	371
Depreciation on investment properties	18,161	7,051
Depreciation on fixed assets	1,055	2,203
Office rent	100	105
Other expenses	6,914	8,281
	<u>102,018</u>	<u>73,859</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

22. Impairment and other provisions, net

	2016 AED'000	2015 AED'000
Reversal/(provision for impairment on) Islamic financing and investing assets	5,000	(1,490)

23. Depositors'/investors' share of profit and related costs

	2016 AED'000	2015 AED'000
Financing obligations, net	109,773	151,378
Amortisation of deferred cost	1,750	1,750
Other	3,896	4,385
	<u>115,419</u>	<u>157,513</u>

24. Commitments

	2016 AED'000	2015 AED'000
Irrevocable commitments to extend credit	201,435	232,741

This represents contractual commitments to provide Islamic financing. Commitments generally have fixed expiry dates, or other termination clauses, and normally require the payment of a fee. Since these may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

25. Contingencies

- a) The Group's bankers have provided a guarantee of AED 50 million (31 December 2015: AED 50 million) favouring the U.A.E. Central Bank against the share capital.
- b) At reporting date, the Group is in legal proceedings against certain customers in the UAE to recover AED 300 million (31 December 2015: AED 300 million). The customers are also counter claiming against the Group. These proceedings are at various stages in the courts of first instance, appeal court and cassation court. Based on legal advice, the management of the Group is contesting the counterclaims as they believe such counter claims are without basis and is pursuing the full recovery of the outstanding balances. Accordingly, no provision for any liability has been made in these consolidated financial statements.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

26. Risk management

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement, mitigation and monitoring and by subjecting risk to limits and other controls. This process of risk management is critical to Group's continuing profitability and sustainability. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. Those risks are monitored through the Group's strategic planning process.

The major risks to which the Group is exposed in conducting its business and operations, and the means and organisational structure it employs in seeking to manage them strategically in its attempt to build stakeholder's value are outlined below.

Risk Management Structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies.

The Board of Directors of the Company is supported by the Board Risk Management Committee, Risk Management Committee, Risk Management Department, Assets and Liabilities Management Committee and Group Internal Audit department of its parent, for identifying, monitoring and managing risks.

Board Risk Management Committee

The Board Risk Management Committee has the overall responsibility for the development of the risk strategies, frameworks, policies and limits, and for recommending these strategies and policies to the Board of Directors. It is responsible for the fundamental risk issues, and manages and monitors relevant risk decisions.

Risk Management Committee

The day-to-day management of risk has been delegated to Risk Management Committee.

The Risk Management Committee has the overall responsibility to support the Board Risk Management Committee for the development and formulation of the risk strategy, frameworks, policies and limits. It is responsible for ensuring the compliance with all risk limits, monitoring risk exposures and implementing the regulatory guidelines issued by the regulatory bodies (e.g. The Central Bank of the U.A.E.).

Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure risk remains within the acceptable range as approved by the Board Risk Management Committee and the Board of Directors. The department is responsible for credit approval, credit administration, portfolio management, credit risk, market risk, operational risk and overall risk control.

Group Internal Audit Department

Risk management processes throughout the Group are audited periodically by the Group Internal Audit Department which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit Department comments on the results of their assessments with management, and reports its findings and recommendations to the Board Audit Committee.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

26. Risk management (continued)

Risk Management Structure (continued)

Asset and Liability Committee

Asset and Liability Management Committee (“ALCO”) is responsible for managing the Group’s assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

The ALCO which reports to the Board through BCRC monitors the asset performance and financial position of the Group. The ALCO is also responsible for establishing risk management standards and methodologies, monitoring liquidity and alternative funding sources, reviewing market rate risk and regulatory capital levels and determining pricing parameters and Tamweel’s base profit rate.

Sharia’a Supervisory Board

In compliance with Tamweel’s memorandum and Articles of Association, Tamweel has a Sharia’a Supervisory Board which oversees all areas of operation in order to ensure that Tamweel’s activities are in accordance with Sharia’a principles. The Sharia’a Supervisory Board is responsible to review the operational, financing and investing activities of the Group ensuring their alignment and compliance with the principles of Islamic Sharia’a as interpreted by it. Being a supervisory board they are also required to audit the business activities undertaken and present an independent report to the shareholders with regard to the implementation of the principles of Sharia’a in the Group’s overall activities.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive and up-to-date information necessary for their proper management and monitoring of risks inherent in the activities.

Types of Risk the Group is subject to:

Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration risk indicates the relative sensitivity of the Group’s performance to developments affecting a particular nationality, industry or geographical location.

In order to avoid excessive concentration of risk, the Group’s policies and procedures include specific guidelines to maintain a diversified portfolio. This is further enforced by the Credit Committee’s oversight. Identified concentration of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Group. Such risk stems mainly from day to day Islamic financing activities undertaken by the Group. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated financing authorities, credit standards and procedures.

The Group attempts to control credit risk by monitoring credit exposures, maintaining credit limits and limiting transactions with specific counterparties. The Group has built and maintains a sound credit portfolio within the guidelines of the Board approved credit policy. The Group has an established risk management process encompassing of credit approvals, control of exposures, credit policy direction to business unit, well-designed credit appraisals, review of exposures both on an individual and a portfolio basis, and incorporation of robust problem credit management procedures. Special attention is directed towards the management of past-due financing assets through a dedicated Collection Team.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

26. Risk management (continued)

Credit risk (continued)

The Group enters in collateral arrangements with counterparties in appropriate circumstances to limit credit exposure. With a relatively dominant Ijara financing structure, the ownership of the financed property is maintained with the Group until the customer (lessee) has fulfilled all his obligations under the relevant Ijara.

Quantitative information

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

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross.

	Gross maximum exposure 2016 AED'000	Gross maximum exposure 2015 AED'000
Bank balances (Note 6)	196,847	132,336
Islamic financing and investing assets (Note 7)	4,331,535	5,249,067
Advances and other receivables	47,504	31,450
Total	4,575,886	5,412,853
Irrevocable commitments to extend credit (Note 24)	201,435	232,741

For more details on the maximum exposure to credit risk for each class of financial instrument, references should be made to the specific notes.

The Group's financial assets, before taking into account any collateral held or other credit enhancements are analysed by business segment in Note 27.

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset, based on the Group's credit rating system.

The gross maximum exposure of the Group spread across banking, real estate and other industries; however the whole exposure is based primarily in the U.A.E.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

26. Risk management (continued)

Credit risk (continued)

Quantitative information (continued)

At 31 December 2016

	<i>Normal grade AED'000</i>	<i>Watch list grade AED'000</i>	<i>Past due but not individually impaired AED'000</i>	<i>Past due and individually impaired AED'000</i>	<i>Total AED'000</i>
Bank balances	196,847	-	-	-	196,847
Islamic financing and investing assets	2,735,777	244,927	367,573	983,258	4,331,535
Advances and other receivables	43,065	-	-	4,439	47,504
Total	2,975,689	244,927	367,573	987,697	4,575,886

At 31 December 2015

	<i>Normal grade AED'000</i>	<i>Watch list grade AED'000</i>	<i>Past due but not individually impaired AED'000</i>	<i>Past due and individually impaired AED'000</i>	<i>Total AED'000</i>
Bank balances	132,336	-	-	-	132,336
Islamic financing and investing assets	3,280,834	362,319	339,408	1,266,506	5,249,067
Advances and other receivables	27,011	-	-	4,439	31,450
Total	3,440,181	362,319	339,408	1,270,945	5,412,853

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

26. Risk management (continued)

Aging analysis of past due but not individually impaired Islamic, financing and investing assets

	<i>31 December 2016</i>		
	<i>Less than 60 days AED'000</i>	<i>60 to 90 days AED'000</i>	<i>Total AED'000</i>
Islamic financing and investing assets	<u>351,069</u>	<u>16,504</u>	<u>367,573</u>
	<i>31 December 2015</i>		
	<i>Less than 60 days AED'000</i>	<i>60 to 90 days AED'000</i>	<i>Total AED'000</i>
Islamic financing and investing assets	<u>323,772</u>	<u>15,636</u>	<u>339,408</u>

Collateral and other credit enhancements

The finance provided by the Group is asset backed in accordance with the principles of Sharia'a. Properties are funded based on "Group's Appraised Value". In the case of new properties, the appraised value is similar to the developers' per square footage rate further assessed by independent valuers. However, in some cases the Group might have lower rates than the developers based on the Group's view of the property. In case of older properties the appraised value is determined by the Credit Department. These valuations are based on the valuation report from valuers, whenever required, and the property prices witnessed in the Group past funding transactions.

The fair value of the asset collaterals is estimated to be approximately AED 8.09 billion as at 31 December 2016 (AED 10.1 billion as at 31 December 2015).

Property insurance is mandatory and the property is insured against all normal risks for the value stated in the sale agreement, or the valuation amount given by the surveyor, as the case maybe. The insured value is maintained at the original property value through the life of the finance.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. In the Group's consolidated financial statements, mainly two line items can lead to such exposure i.e. Islamic financing assets and financing obligations, as shown on the assets and liability sides respectively. The profit rate risk for the Group is minimal in the short term period.

The profit rate for financing assets is a composition of EIBOR and internal spread which cannot be expected to fluctuate frequently based on EIBOR movement. The Group reviews the profit rate on a monthly basis during its ALCO meeting and, if required, recommends rate change based on market conditions and competition.

The profit rate on financing obligations is contractually determined on contract initiation. Refer to Note 14 for further details.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated statement of comprehensive income.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

26. Risk management (continued)

Profit rate risk (continued)

The sensitivity of the consolidated statement of comprehensive income is the effect of the assumed changes in profit rates on the net profit earned for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2016 and 31 December 2015.

		<i>31 December 2016</i>	
		<i>Increase/ (decrease) in basis points</i>	<i>Sensitivity of net returns increase/ (decrease) AED 000's</i>
AED		50bps	16,372
AED		(50bps)	(16,372)

		<i>31 December 2015</i>	
		<i>Increase/ (decrease) in basis points</i>	<i>Sensitivity of net returns increase/ (decrease) AED 000's</i>
AED		50bps	20,346
AED		(50bps)	(20,346)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

All assets and liabilities as at 31 December 2016 are denominated in the U.A.E. Dirhams or US Dollars. U.A.E. Dirham is currently pegged to US Dollar and therefore, the Group is not exposed to any significant currency risk except for the balances relating to foreign subsidiaries, which are not significant.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect (as a result of a change in the fair value of equity instruments held at 31 December 2016 and 31 December 2015) due to a reasonably possible change in equity indices, with all other variable held constant, is as follows:

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

26. Risk management (continued)

Equity price risk (continued)

Market indices

	<i>31 December 2016</i>		<i>31 December 2015</i>	
	<i>Change in equity price</i>	<i>Effect on other comprehensive income AED'000</i>	<i>Change in equity price</i>	<i>Effect on other comprehensive income AED'000</i>
DFM	+20%	9,994	+20%	8,871
DFM	-20%	(9,994)	-20%	(8,871)

Settlement risk

Early settlement risk is the risk that the Group will incur a financial loss because its counterparties settle earlier or later than expected.

The Group does not have any significant early settlement risk as the amount recovered in case of early settlement is more than the fair value of the asset on settlement date, by adding a margin, and to recover amount on time and to avoid any delays. The collection team, supervised by the Credit committee monitors the customer receivable position on a daily basis.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its funding requirements. This can be caused by political uncertainty, market disruptions or deterioration in the Group's credit ratings.

The Group monitors its liquidity position and funding strategies on an ongoing basis, but recognises that unexpected events, economic or market conditions, earnings problems or situations beyond its control could cause either a short or long-term liquidity crisis.

The Group reviews the maturity gap analysis in its monthly ALCO meetings to identify potential liquidity risks in advance. The gap measures liquidity in five time buckets for each type of asset and liability for each period, as well as cumulatively.

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

26. Risk management (continued)

Maturity analysis of assets and liabilities

The maturity analysis of assets, liabilities and items off the consolidated statement of financial position analysed according to when they are expected to be recovered, settled or sold.

The maturity gap at the year-end arises due to contractual maturities of assets and liabilities. The Group intends to access stable sources of medium to long term financing from Capital markets by issuing Sukuks and other asset backed Sharia compliant structures. Financing obligations are expected to be rolled over on maturity. DIB P.J.S.C. has reviewed the Group's funding requirements for five years and intends to provide full support in relation to its overall business model.

At 31 December 2016

	Within 1 month AED'000	1 to 3 months AED'000	3 to 12 months AED'000	Subtotal less than 12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
ASSETS							
Bank balances and cash	196,847	-	-	196,847	-	-	196,847
Islamic financing and investing assets, net	27,978	57,200	240,841	326,019	1,401,660	2,098,007	3,825,686
Other investments carried at FVTOCI	-	-	-	-	49,972	-	49,972
Investment properties	-	-	-	-	552,433	-	552,433
Advances, prepayments and other receivables	1,628	16,868	22,568	41,064	2,001	-	43,065
Fixed assets	-	-	-	-	13,980	-	13,980
Total assets	232,799	222,993	444,724	900,516	2,435,246	1,346,221	4,681,983
LIABILITIES							
Zakat payable	-	3,191	-	3,191	-	-	3,191
Accounts payable, accruals and other liabilities	34,104	5,364	22,311	61,779	55,923	-	117,702
Financing obligations	2,027,500	-	-	2,027,500	-	-	2,027,500
Total liabilities	2,061,604	8,555	22,311	2,092,470	55,923	-	2,148,393
Assets less liabilities	(1,828,805)	214,438	422,413	(1,191,954)	2,379,323	1,346,221	2,533,590
COMMITMENTS							
Irrevocable commitments to extend credit	-	47,553	41,986	89,539	111,896	-	201,435

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

26. Risk management (continued)

Maturity analysis of assets and liabilities (continued)

At 31 December 2015

	Within 1 month AED '000	1 to 3 months AED '000	3 to 12 months AED '000	Subtotal less than 12 months AED '000	1-5 years AED '000	Over 5 years AED '000	Total AED '000
ASSETS							
Bank balances and cash	61,232	-	5,000	66,232	66,114	-	132,346
Islamic financing and investing assets, net	30,967	62,319	196,784	290,070	1,662,134	2,747,876	4,700,080
Other investments carried at FVTOCI	-	-	-	-	44,355	-	44,355
Investment properties	-	-	-	-	463,295	-	463,295
Advances, prepayments and other receivables	1,197	10,355	14,376	25,928	2,833	-	28,761
Fixed assets	-	-	-	-	15,035	-	15,035
Total assets	93,396	72,674	216,160	382,230	2,253,766	2,747,876	5,383,872
LIABILITIES							
Zakat payable	-	3,045	-	3,045	-	-	3,045
Accounts payable, accruals and other liabilities	8,729	8,792	89,082	106,603	63,037	-	169,640
Financing obligations	1,650,000	-	-	1,650,000	1,102,500	-	2,752,500
Total liabilities	1,658,729	11,837	89,082	1,759,648	1,165,537	-	2,925,185
Assets less liabilities	(1,565,333)	60,837	127,078	(1,377,418)	1,088,229	2,747,876	2,458,687
COMMITMENTS							
Irrevocable commitments to extend credit	-	54,943	48,511	103,454	129,287	-	232,741

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

26. Risk management (continued)

Contractual undiscounted repayment obligations

The maturity profile of the Group's financial liabilities based on contractual undiscounted payment obligations is as follows:

	<i>Within 1 month AED'000</i>	<i>1 to 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>Subtotal less than 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>Total AED'000</i>
<i>At 31 December 2016</i>						
Zakat payable	-	3,191	-	-	-	3,191
Accounts payable, accruals and other liabilities	34,104	5,364	22,311	61,779	55,923	117,702
Financing obligations (includes future profit payables)	2,032,753	-	-	2,032,753	-	2,032,753
	<u>2,066,857</u>	<u>8,555</u>	<u>22,311</u>	<u>2,094,532</u>	<u>55,923</u>	<u>2,153,646</u>
<i>At 31 December 2015</i>						
Zakat payable	-	3,045	-	3,045	-	3,045
Accounts payable, accruals and other liabilities	8,729	8,792	89,082	106,603	63,037	169,640
Financing obligations (includes future profit payables)	1,657,633	-	28,411	1,686,044	1,130,911	2,816,955
	<u>1,666,362</u>	<u>11,837</u>	<u>117,493</u>	<u>1,795,692</u>	<u>1,193,948</u>	<u>2,989,640</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

27. Segment information

For management purposes the Group is organised into two major business segments:

Islamic financing and investing activities - Principally handling Islamic financing and investing activities.

Property investment activities - Principally involved in the purchase and sale of investment properties and related activities including commissions.

Other - Functions other than the above core lines of business.

These segments are the basis on which the Group reports its segments information. Segment information for the year ended 31 December 2016 and 2015:

	31 December 2016			31 December 2015		
	Islamic financing and investing activities AED'000	Property investment activities AED'000	Total AED'000	Islamic financing and investing activities AED'000	Property investment activities AED'000	Total AED'000
Gross income	306,302	9,353	315,655	307,197	5,659	312,856
Allocable expenses	(192,877)	(5,343)	(198,220)	(215,057)	(7,061)	(222,118)
Depreciation	(1,055)	(18,161)	(19,216)	(2,203)	(7,051)	(9,254)
Segment result	112,370	(14,151)	98,219	89,937	(8,453)	81,484
Reversal/(impairment and other provisions)	5,000	-	5,000	(1,490)	-	(1,490)
Profit for the year	117,370	(14,151)	103,219	88,447	(8,453)	79,994
Segment assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
	4,125,739	556,244	4,681,983	4,916,888	466,984	5,383,872
Segment liabilities	1,893,152	255,241	2,148,393	2,671,726	253,459	2,925,185
Capital expenditure	-	-	-	-	-	-

No secondary segment information has been provided as currently the operations of the Group are concentrated primarily in the U.A.E.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

28. Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015. Capital comprises share capital, statutory reserve, general reserve, special reserve and retained earnings.

29. Related party transactions

The Group enters into arm's length transactions with shareholders, directors, key management personnel and their related concerns in the ordinary course of business at commercial profit and commission rates. All facilities to related parties are performing facilities and are free of any provision for possible impairment.

Balances and transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note.

The significant balances and transactions of related parties included in the consolidated financial statements are as follows:

	For the year ended 31 December 2016		For the year ended 31 December 2015	
	Major shareholders AED'000	Companies under common control AED'000	Major shareholders AED'000	Companies under common control AED'000
Income on mudaraba deposits and wakala investments	1,491	-	1,385	-
Portfolio management fee	18,504	-	18,504	-
Other income	3,230	-	2,871	-
Management charges	-	(356)	-	(111)
Depositors'/investors' share of profit and related cost	56,869	-	98,412	-

Related party transactions with other related parties during the year amounted to AED 6.7 million (31 December 2015: AED 11.4 million).

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

29. Related party transactions (continued)

	As at 31 December 2016		As at 31 December 2015	
	Major shareholders AED'000	Companies under common control AED'000	Major shareholders AED'000	Companies under common control AED'000
Bank balances and cash	196,837	-	132,336	-
Other investments carried at FVTOCI	49,972	-	44,355	-
Advances, prepayments and other receivables	5,006	351	402	184
Financing obligations	925,000	-	1,650,000	-
Depositors'/investors' share of profit payable and related cost	3,494	-	550	-

The compensation paid to key management personnel of the Group is as follows:

	2016 AED'000	2015 AED'000
Short term employee benefits	4,194	4,712
Termination and other benefits	191	292
	<u>4,385</u>	<u>5,004</u>

30. Fair values of financial instruments

(1) Fair value of financial instruments measured at amortised cost

The fair values of financial instruments measured at amortised cost are not materially different from their carrying values.

(2) Fair value of financial instruments measured at fair value

Fair value of all other investment measured at fair value through other comprehensive income (Note 8) are based on quoted price in an active market.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

30. Fair values of financial instruments (continued)

(2) Fair value of financial instruments measured at fair value (continued)

The table below summarizes the Group's financial instruments fair value according to fair value hierarchy:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2016				
<i>Other financial assets measured at fair value</i>				
<i>Investments carried at FVTOCI</i>				
Quoted equity	49,972	-	-	49,972
Total	49,972	-	-	49,972
At 31 December 2015				
<i>Other financial assets measured at fair value</i>				
<i>Investments carried at FVTOCI</i>				
Quoted equity	44,355	-	-	44,355
Total	44,355	-	-	44,355

31. Proposed dividend

The Board of Directors has proposed a dividend of AED 0.025 per share totaling to AED 25 million (2015: AED 0.025 per share totaling to AED 25 million). The amount of proposed dividend is subject to approval at the Annual General Meeting.

32. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue 18 January 2017.