Annual Report

2016

بنك أم القيوين

NBQ

His Highness Sheikh

SAUD BIN RASHID AL-MUALLA

Member of the Supreme Council of the United Arab Emirates

&

Ruler of Umm Al Qaiwain

His Highness Sheikh

RASHID BIN SAUD BIN RASHID AL-MUALLA

Crown Prince of Umm Al Qaiwain


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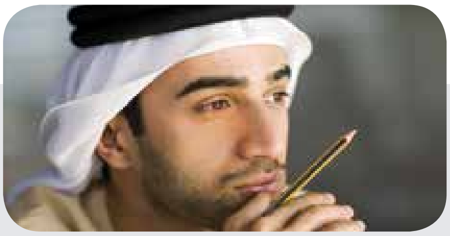


Umm Al Qaiwain Branches

NBQ Building (Head Office)
King Faisal Street
P.O. Box 800
Umm Al Qaiwain

Falaj Al Mualla Branch
NBQ Building
Shaikh Zayed Street
P.O. Box 11074 Falaj Al Mualla

Al Salama Branch
Al Itihad Road
P.O. Box 800
Umm Al Qaiwain

Dubai Branches

Dubai Main Branch
NBQ Building
Khalid Bin Al Waleed Street
P.O. Box 9175 Dubai

Deira Branch
Opposite Dubai Police Head Quarters
Al Ittihad Street
P.O. Box 9175 Dubai

Al Awir Branch
Ras Al Khor
P.O. Box 9175 Dubai

Sheikh Zayed Road Branch
Al Shafar Building, Sheikh Zayed Road
Al Qouz Industrial No.1
P.O. Box 9175 Dubai

Abu Dhabi Branches

Abu Dhabi Branch
Hamdan Bin Mohammed Street (No.5)
P.O. Box 3915 Abu Dhabi

Mussafah Branch
P.O. Box 9770 Abu Dhabi

Al Ain Branch
Ali Bin Talib Street
P.O. Box 17888 Al Ain

Sharjah Branches

Sharjah Branch
King Faisal Street
P.O. Box 23000 Sharjah

Sharjah Industrial Branch
Khansaheb Building
Sharjah Industrial Number 10
Third Industrial Street
P.O. Box 80400

Ajman Branches

Masfout Branch
NBQ Building
Main Street
P.O. Box 12550 Masfout, Ajman

Ajman Branch
Al Shurafa Building
Shk. Khalifa Bin Zayed St.
Front of Grand Mall
P.O. Box 4133
Ajman

Fujairah Branch

Fujairah Branch
Fujairah Insurance Co. Building
Hamad Bin Abdulla Road
P.O. Box 1444 Fujairah

Ras Al Khaimah Branch

Ras Al Khaimah Branch
Corniche Al Qawasim Road
P.O. Box 32253
Ras Al Khaimah

بنك أم القيوين
NBQ

Board of Directors

H.H. Sheikh Rashid Bin Saud Bin Rashid Al-Mualla
Chairman

Mr. Abdulla Ahmad Al Moosa
Deputy Chairman

Sheikh Nasser Bin Rashid Al-Moalla
Managing Director & Chief Executive Officer

Mr. Abduljaleel Yousuf Darwish
Director

Mr. Issa Abdulrahman Ateeq
Director

Mr. Salem Abdulla Salem Al Housani
Director

Mr. Marwan Abdulla Hassan Al Rostamani
Director

Management

Sheikh Nasser Bin Rashid Al-Moalla
Managing Director & Chief Executive Officer

Mr. Ramachandra Iyer
General Manager

Chairman's Report

On behalf of the Board, I am pleased to welcome you all to the 34th Annual General Meeting of National Bank of Umm Al Qaiwain (PSC) (NBQ) and present the annual report of the Board of Directors for the year ended 31 December 2016.

Despite challenging economic scenario and the competition in the banking industry, it is my pleasure to inform that the Bank has achieved total revenue of AED 621.03 million for the year ended 31 December 2016, operating income of AED 354.37 million and net profit of AED 325.73 million.

Total assets reached AED 13.55 billion. Loans and advances were at AED 8.81 billion while customer deposits stood at AED 9.01 billion marginally up as compared to last year.

The Bank holds collateral and specific provision to the tune of 140% of the non-performing loans, which reflects prudent management and effective monitoring of our loans and advances portfolio.

Shareholders' equity amounted to AED 3.99 billion as at 31 December 2016 (2015: AED 3.99 billion).

The Bank has consistently maintained high level of liquidity as in the past and liquidity ratio as of 31 December 2016 stands at 28.60%.

We continue to maintain one of the highest capital adequacy ratios in the banking industry which stands at 34.60% and is higher than the minimum prescribed level of 12% stipulated by the UAE Central Bank.

This demonstrates the financial strength of the Bank and its capacity to expand its lending capability, when needed.

Tier 1 ratio is recorded at 33.33%, which is also substantially higher than the prescribed 8% stipulated by the regulatory authorities.

Cost to income ratio is 29.97% which is comparatively below industry levels.

The Board has recommended payment of cash dividend of 10% of the Share Capital for the year ending 31st December 2016.

During 2016, the economic activity in the US expanded at a moderate pace. Eurozone and Japan remained volatile while Asian countries like India and China registered good growth rates.

Oil price recovered marginally but not to the expected levels due to supply issues.

2016 witnessed market moving events like Brexit and US Elections.

In view of the subdued global indicators and financial developments, Federal Reserve hiked the interest rates once in December by 25 basis points with indications of more hikes in 2017.

Among the GCC countries, UAE moved strongly on the diversification front and the growth was widespread and sustained.

UAE is likely to maintain a growth rate of around 2.5-3% on non-oil sector which will maintain the overall growth without excessive reliance on the oil sector revenue.

Infrastructural spending is expected to increase the financial activities of the country and would boost consumption.

During 2017, banks are expected to improve upon their credit growth while continuing their emphasis on security and safety.

ADX and DFM indices were maintaining the same levels during the year but witnessed an uptick in December 2016 after reports of cut in oil production.

Chairman's Report (continued)

We expect 2017 to be a challenging year with hopes of more recovery in oil price and other economic activities.

We continued to adopt a cautious approach towards credit expansion and concentrated our efforts on close monitoring of the existing credit portfolio.

Going forward, the Bank has a clear strategy in place to further enhance shareholder returns and take advantage of the expected growth opportunities in selected sectors.

On behalf of the Board of Directors, we would like to express our gratitude to His Highness Sheikh Saud Bin Rashid Al Mualla – Ruler of Umm Al-Qaiwain and Member of the Supreme Council of the United Arab Emirates – for their continued support for the development of the Bank.

We would also like to state our appreciation for the on-going initiatives and support of the UAE Central Bank to regulate the country's financial sector and for their helpful guidance to the Bank during this year.

We would like to express our appreciation and gratitude to our shareholders, customers and correspondent banks for achieving our objectives and maintaining continued success in our operations.

Lastly we have a good team of talented management and staff members who are committed and loyal to the Bank.

On behalf of the Board of Directors, we would like to express our sincere thanks to all our employees for their contribution to the success of the Bank and in providing us strength to meet challenges in future.

Rashid Bin Saud Al Mualla
Chairman

Management Review

ECONOMIC OVERVIEW

During 2016, the economic activity in the US expanded at a moderate pace. Eurozone and Japan remained volatile while Asian countries like India and China registered good growth rates. Oil price recovered marginally but not to the expected levels due to supply issues. 2016 witnessed market moving events like Brexit and US Elections. In view of the subdued global indicators and financial developments, Federal Reserve hiked the interest rates once in December by 25 basis points with indications of more hikes in 2017.

Among the GCC countries, UAE moved strongly on the diversification front and the growth was widespread and sustained. UAE is likely to maintain a growth rate of around 2.5-3% on non-oil sector which will maintain the overall growth without excessive reliance on the oil sector revenue. Infrastructural spending is expected to increase the financial activities of the country and would boost consumption. ADM and DFM indices were maintained at the same levels during the year, but witnessed an uptick in December 2016 after reports of cut in oil production.

During 2017, UAE Banking sector is headed into another challenging year and is expected to face slowdown in Loans growth, while continuing their emphasis on security and safety. 2017 is expected to be a challenging year with hopes of more recovery in oil price and other economic activities.

FINANCIAL OVERVIEW

Despite challenging economic scenario and the competition in the banking industry, the bank has achieved total revenue of AED.621.03 million for the year ended 31st December 2016, operating income of AED.354.37 million and net profit of AED.325.73 million.

Total assets reached AED.13.55 billion. Loans and advances were at AED.8.81 billion while customer deposits stood at AED.9.01 billion marginally up as compared to last year.

The Bank holds collateral and specific provision to the tune of 140% of the non-performing loans, which reflects prudent management and effective monitoring of our loans and advances portfolio.

Shareholder's equity amounted to AED.3.99 billion as at 31st December 2016.

The Bank consistently maintained high level of liquidity as in the past and liquidity ratio as at 31st December 2016 stands at 28.60%. The bank continues to maintain one of the highest capital adequacy ratios in the banking industry which stands at 34.60% and is higher than the minimum prescribed level of 12% stipulated by the UAE Central Bank. This demonstrates the financial strength of the Bank and its capacity to expand its lending capability, when needed.

Tier 1 ratio is recorded at 33.33% which is also substantially higher than the prescribed 8% stipulated by the regulatory authorities. Cost to income ratio is 29.97% which is comparatively below the industry levels which demonstrates the Bank's operational efficiency.

OPERATIONAL PERFORMANCE

Treasury, Investments and Institutional Banking

The Bank continued its judicial mix of different investment avenues with the objective of building a long-term portfolio for sustained yields. Though there were intermittent falls in value of equity investments, the dividend returns were fairly decent. Prudent investment policies, exit strategies and internal reporting mechanisms were practiced to mitigate risks on the exposures, which facilitated the bank to maintain stable income on the investment portfolios.

Wholesale banking

The Bank has adopted a cautiously optimistic approach and achieved reasonable level of growth in the Wholesale Banking portfolio. Growth in assets has primarily been achieved by enlarging the customer base and leveraging existing relationships. At a time when the industry has seen mounting losses and decreasing credit lines, the Bank has adopted a prudent and matured strategy towards lending. The Bank expects to maintain the same strategy of cautious growth in 2017. The Bank intends to adopt a new strategy to expand the credit business of companies and individuals who have special relation with the Bank.

Retail Banking

The Bank offers its Retail Banking range of products and services to individuals and small business entities through its network of 16 Branches, and 11 Electronic Banking Units (EBUs) spread across all the seven emirates of UAE. The Bank also maintains a network of ATMs/CCDMs across the country for the convenience of its clients.

The focus of Retail Banking continued to serve and grow its UAE National customer base by meeting their financial requirements mainly by providing them Housing Loans besides other lending and deposit products. The retail lending continues to be prudent in its growth approach by exercising caution and care towards the Expat and Small Business target segment.

The focus has been to grow Retail Asset products profitability steadily by sourcing good quality loans. During 2017, the Bank intends to launch state of the art Mobile Banking services in addition to upgrading the E-Banking services to its customers.

Management Review (continued)

Information Technology and Operations

The Bank has implemented industry leading, cutting-edge technologies to cater to the business in a very sophisticated, secure and productive manner. This has enabled the bank to ensure the confidentiality, integrity and availability of Bank's most critical data at all times. In-house development team has successfully rolled out several projects during the year. The Bank is among the first banks in UAE to rollout the AECB as per the regulatory authority requirements. Bank has successfully executed business simulation of critical applications from their respective Disaster Recovery (DR) instances hosted in the Disaster Recovery Site. Normal business operations including card authorizations and EOD activities were carried out from the DR site.

The Bank has successfully upgraded the Bank's e-banking application to the latest version and further enhancements are underway. Mobile Banking implementation is also under progress to cater to the digital experience to our customers. Upgrades of customer centric applications are being implemented to improve customer service and security.

The Bank has taken serious steps to enhance the overall internal and external security through a multi-dimensional approach. The Bank has successfully implemented the major phases of Banking Data warehousing project to improve data analytics and reporting efficiency.

Human Resources

The Bank revamped the human resources strategies to meet the challenges faced in maintaining the bottom line. Restructuring of departments and branches by optimally using the capable and talented resources is done to improve the performance and operational efficiency. Regulatory and socio-cultural requirements were appropriately considered in the Human Resources processes, which include improving the UAE national work force's involvement in the leadership roles and in their strategic positioning. Recruitment policies, upgrade and empowerment policies are reviewed consistently to promote a motivated UAE national workforce.

Training needs, talent planning and succession planning are considered as key objectives of Human Resources Department especially on the national workforce. Staff attrition is brought under control by retaining staff members at the key positions and Emiratization is maintained consistently at the same levels.

CORPORATE GOVERNANCE REPORT

The Bank was established in the year 1983 and from inception NBQ has been maintaining good corporate governance, risk management practices, internal control systems commensurate with the size and core values defined by the founders. The Bank laid down its governance practices based on the vision and mission, regulatory requirements, legislations and best practices prevailing in the industry.

Corporate Governance framework is managed by the Board of Directors, who possesses good knowledge of the industry practices and has wide range of experience to provide strategic direction to the management of the Bank. Additionally, functional committees are formed and mandated to manage different segment disciplines with clear reporting mechanisms. Responsibilities are clearly laid down for the Board and Senior Management through well-defined responsibility charts and matrices. Board sets the strategic goals of the Bank and provides leadership and supervises the management of the Bank and report to the shareholders. Board actions are governed by Companies Law, Union Laws relevant to the banking industry, prescribed regulatory norms and as per the decisions taken by the shareholders in the General Meetings.

Corporate Governance structure and framework

At the apex level, Shareholders ensure the importance of the Corporate Governance structure and its presence in the operations of the Bank. They appoint Auditors and Directors, approve financial statements and Dividends at the Annual General Meetings and approve changes in the Memorandum and Articles of Association as required by Company Law.

Board of Directors has the responsibility of managing NBQ, which includes implementation of strategic objectives, risk management practices, corporate governance practices and ensures long term sustainability of the Bank. They are responsible for directing and supervising the general Management of the Bank.

Transparency and disclosure requirements are key factors, which are considered by the Board in its actions fundamental to the compliance of the governance practices and communicate with the senior management through appropriate communication forums. Board has delegated relevant powers to the Managing Director and CEO for an effective day to day management.

Board Committees

Board meetings are conducted as per the Board Charters and as per the Memorandum and Articles of Association and governed by Company Law provisions. Minimum of four board meetings are held in a year.

Board of Directors decides the risk profile appropriate to the Bank's growth strategy. Board approves risk management strategies, policies, standards, key limits and delegates risk related responsibilities to its Board level committees viz., Executive Credit Committee, Audit & Risk Committee and Remuneration committee.

Audit and Risk Committee

This committee handles issues related to internal control, internal audit and credit risk related matters and the Committee meets periodically. Managing Director and Chief Executive Officer, two Directors, Head of Credit Risk Department and Head of Internal Audit Department attend the committee meetings.

Management Review (continued)

Senior Management

The Bank has a team of Senior Management officials who are experienced and qualified for discharging high profile management duties. Senior Management is delegated with the responsibility of managing the affairs of the bank in a professional manner while maintaining the internal control, compliance, governance and risk management focus. Board of Directors directs the senior Management team to apply due diligence and caution to protect the interests of the bank and its shareholders.

Management Committees

The Bank's Management committees consist of CEO and other Senior Management officials. Charters are prepared for the committees, which clearly define the duties and responsibilities of the committees. Committees include functional heads and invitees based on need and scope of discussion

Asset and Liability Committee (ALCO):

This committee is responsible for ascertaining the liquidity position, monitoring and managing assets and liabilities, and regulatory compliance. This committee meets every month and is chaired by the Managing Director and CEO. There are participants from the Senior Management positions. Treasury and Market risk representatives.

Credit related management committees are framed to approve credit facilities on wholesale and retail based on the approval limits set against each committee.

Remuneration of the Board:

Remuneration of the Directors is approved at the Annual General Meeting every year and is paid at the close of the year and it is disclosed in the Financial Statements.

Managing Director and CEO is paid monthly salary.

Internal Control framework

The Bank maintains internal control policy framework which is constantly monitored by Senior Management, Internal Audit, Risk management and Compliance departments. The Bank also maintains control on the risk profile and risk management practices which are constantly being reviewed by the committees and compliance team. Based on internal assessment, we hold adequate capital to support our future growth and address risks inherent in the industry. Manuals and operating procedures are prepared for compliance and are refined from time to time.

External Auditors

Deloitte and Touche (M.E) were appointed as External Auditors for the Bank including its subsidiary for the year 2016 by the Shareholders at the Annual General Meeting. Appointment of Auditors is in accordance with the Articles of Association of NBQ. During 2016, External auditors did not provide any consultancy service to NBQ that would hamper their independence and objectivity. External Auditors were involved as per the Central Bank requirements in studying the IFRS 9 impact assessment which did not hamper their independence and objectivity.

RISK MANAGEMENT

Credit Risk

In line with the best practices, the Bank follows a well-defined organizational structure with Relationship Business Units as the front office, Centralized Approval and Credit Risk Units as the Mid-office and Credit Administration & Operations unit as the back-office, all properly segregated. The segregated functions and clear reporting lines provide maximum level of risk assurance and management oversight to Bank's credit functions. The Bank has well laid out credit risk policies which are scrupulously followed at all levels. Credit risk policy manual is updated on an ongoing basis as per regulatory and emerging business requirements. Credit Processing, Assessment and Risk Rating system for wholesale banking is in place to ensure standardization and proper risk assessment in the credit appraisal process.

As part of pro-active credit monitoring, tracking of Early Warning Signals, independent physical inspection of projects are undertaken through Risk Containment Unit. Management of stressed accounts and non-performing loans is centralized. Exposure monitoring including concentration levels at single obligor and sectoral levels are monitored by Portfolio Management Unit. The Bank is working on implementation of Foundation IRB approach of Basel II as per CBUAE guidelines in this regard. The Bank has performed impact analysis of IFRS9 as at 31.03.2016, which showed that the impact is overall positive for the Bank.

During the reporting period, the Bank made a comprehensive review of the Wholesale banking portfolio on various parameters based on past experience and laid the platform for future growth in this segment.

Basel II implementation

The Bank adheres to the guidelines required for compliance under Pillar 2 and Pillar 3 including submission of ICAAP report annually to Central Bank of UAE. We are also in compliance with Central Bank of UAE norms for standardized approach for computation of Capital Adequacy ratios.

Stress tests are regularly carried out to assess credit risk, liquidity risk, interest rate risk in the banking book and equity price risk. The results show that the Bank is comfortably placed in line with the risk profile of the Bank and there is substantial buffer between available capital and regulatory capital to cover any unexpected losses from other risks.

Management Review (continued)

Market Risk

The Bank has well defined policies approved by the Board, setting out the risk appetite and various limits for management of market risks in the Banking Book and trading book. The position is reviewed monthly by the Bank's Asset and Liability Management Committee (ALCO) to achieve optimum returns while maintaining market risk exposures within prudential limits.

Liquidity stress tests are conducted to monitor the Bank's vulnerability towards extreme, but plausible unfavorable shocks at periodical intervals to assess the impact on liquidity to withstand stressed conditions. Stress tests are also carried out to assess interest rate risk in the banking book and price risk in the entire equity portfolio. The results show that the Bank is comfortably placed and are in line with the risk profile of the Bank.

The Bank has also set out a Contingency Funding Plan (CFP) in line with norms of CBUAE which includes contingency trigger levels and processes/ steps to be followed if these are breached. Reports are frequently reviewed and approved by the Board.

Operational Risk

The Basel Committee for Banking Supervision has defined Operational Risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". This definition includes Legal risk but excludes Strategic or Reputation risk. Operational risk is inherent in all business activities and management of this risk is vital to the strategic objectives of the Bank.

The Bank has implemented the under noted processes aimed at monitoring, and mitigating operational risks.

- Identification of Risk through Risk and Control Assessment and Incident/Loss Event Reporting to Centralized Operational Risk Function.
- Management and Control of risk to prevent their recurrence or minimize the potential impact
- Monitoring and Reporting of Risk
- Establish a Centralized Repository for Capturing Operational Risk Losses

With proliferation of new technologies, the use of internet and telecommunications technologies to conduct financial transactions has increased the sophistication and information security risk for Financial Institutions. To combat security breaches, Bank has set up a dedicated Information Security and Compliance Department to ensure long term viability of the Institution and its data.
The Bank has in place a Policy and Comprehensive Framework for Operational Risk in order to monitor, assess, evaluate, control and mitigate risks arising out of regular operations. The frame is enhanced by strong risk governance, which includes active participation of Board of Directors, Executive Management and business line management in the risk management process.

Business Contingency and Continuity Plan

To ensure that the Bank's regular functioning is not disrupted by unforeseen events/disasters/system related failure, Bank has set up a Disaster Recovery (DR) site, located away from the main processing center; and the Business Contingency and Continuity Plan is in place.

COMMUNITY RELATIONS

While maintaining business presence, Bank has been consistently participating in social welfare measures in the emirate and taking sincere initiatives in the Corporate Social Responsibility requirements. The Bank provided support to the charitable, educational, medical, social and other recreational initiatives undertaken in the country by socio-cultural organizations of repute from time to time.

CONCLUSION

Board of Directors and Senior Management appreciate and thank our shareholders for their continuous support provided to the bank for all these years, to the customers for the continued support, trust and loyalty demonstrated by them through their business relationships and finally to the Management team and all the staff members for their continued contribution, dedication loyalty and commitment.

Nasser Bin Rashid Al-Moalla
Managing Director & Chief Executive Officer

Independent Auditor's Report

The Shareholders
National Bank of Umm Al-Qaiwain (PSC)
Umm Al-Qaiwain
United Arab Emirates

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of National Bank of Umm Al-Qaiwain (PSC) ("the Bank") and its Subsidiary (together "the Group"), Umm Al-Qaiwain, United Arab Emirates which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of income, 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 and other explanatory information.

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 its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 United Arab Emirates, and we have fulfilled our other ethical responsibilities. 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.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances	
The management exercises significant judgement when determining the timing and amount of loan impairment. The audit of loan impairment is a key area of focus because of the significant judgements involved and the size of loans and advances (representing 65% of total assets). Individually assessed loans represent mainly, corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Bank in accordance with the original contractual terms. Impaired loans are measured on the basis of the present value of expected future cash flows including observable market price or fair value of the collateral. The impairment loss is calculated based on the shortfall in the loans carrying value compared to the net present value of future cash flows using original effective interest rate. The factors considered when determining impairment losses on individually assessed accounts include the customer's aggregate borrowings, risk rating,	We tested the design, implementation and operating effectiveness of the key controls to determine which loans and advances are impaired and provisions against those assets. These included testing: • System-based and manual controls over the timely recognition of impaired loans and advances; • Controls over the impairment calculation models including data inputs; • Controls over collateral valuation estimates • Controls over governance and approval process related to impairment provisions, including continuous reassessment by the management. We recalculated and compared the impairment provisions recorded for retail loans and advances as per the Central Bank guidance which specifies specific provisions based on the number of days past due. We tested a sample of individual loans and advances to assess whether impairment events had occurred and adequate impairments provisions had been recorded in a timely manner.

Independent Auditor's Report
(continued)

Key audit matters (continued)

Impairment of loans and advances (continued)	
value of the collateral and probability of successful repossession and the costs involved to recover the debts. Impairment losses of collectively assessed loans include the allowances calculated on performing loans and small value loans with common features, which are not individually significant. In assessing collective impairment the Bank uses the higher of 1.5% of credit risk weighted assets computed as per UAE Central Bank guidelines and an estimated impairment allowance as per the Bank's policies described above and IFRS.	Further, we focused our attention on individually significant exposures, where we tested the estimates and assumptions used by management underlying the impairment identification and quantification, valuation of underlying collateral by external experts and estimator of recovery on default. For the collective impairment calculations used by the Bank, we tested a sample of the data used in the calculations as well as evaluating the methodology and judgements involved. For the key assumptions used in the calculations, we challenged management to provide objective evidence that they were appropriate and included all relevant risks. We recalculated the collective impairment provision as per the Bank's policies and IFRS and compared it with the calculations as per UAE Central Bank to ensure adequacy of the provision.
IT systems and controls over financial reporting	
IT systems and controls over financial reporting have been identified as an area of focus as the Bank financial accounting and reporting systems are heavily dependent on complex systems due to the extensive volume and variety of transactions which are processed daily and there is a risk that automated accounting procedures and related IT dependant manual controls are not designed and operating effectively. The widespread reliance on information systems within the Bank means that the controls over access rights and segregation of duties are also critical. The underlying principles are important because they ensure that changes to applications and data are appropriate, authorized and monitored. Our audit approach relies on automated controls and therefore procedures are designed to test access and control over IT systems.	We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting. We reviewed the general IT controls of the major systems and applications including swift and FTS messaging. We assessed the IT security environment and tested the key controls identified as relevant to business processes. Further we performed journal entry testing as stipulated by the International Standards on Auditing. In events where any IT controls deficiencies were identified during the scope of our audit, we performed a combination of controls testing and substantive testing in order to determine whether we could place reliance on the completeness and accuracy of system generated information. In addition and where appropriate, we extended the scope of our substantive audit procedures.
Impairment of available-for-sale financial instruments	
The impairment of the Bank's financial instruments was a key area of focus given the significance of the judgement involved in determining the impairment to be recognized and the size of the financial instruments (representing 8% of the total assets). Impairment of available-for-sale investments is determined when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires significant judgement, particularly given the uncertainties that exist in the external markets. As described in Note 4 to these consolidated financial statements, in making such judgments the Bank evaluates the normal volatility of the share price, financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.	In considering the impairment of available for sale securities, we compared the fair valuation of the securities to its original purchase price and reviewed its historical share performance, to identify any significant or prolonged decline in the securities. We evaluated the key judgments made by the Bank in determining the impairment losses. Our audit procedures included, among others, verification of sufficient appropriate audit evidence related to the underlying data driving the judgments to ensure its accurate and complete. Further, we reviewed the conclusions reached by the Bank, to ensure its consistent with the appropriate application of the judgments.

Independent Auditor’s Report
(continued)

Other information

The Board of Directors and management is responsible for the other information. The other information comprises the annual report of the Bank. We obtained the Chairman’s report, prior to the date of this auditors’ report and the remaining information of the annual report 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 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 Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors.

Responsibilities of the management and the Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these 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 Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Directors are responsible for overseeing the Bank’s financial reporting process.

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

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

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 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.

Independent Auditor's Report
(continued)

- 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 Bank 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 are required to communicate to the Directors 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 are also required to provide the Directors 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 to the Directors, 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 information.

Report on other legal and regulatory requirements

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

i) we have obtained all the information we considered necessary for the purposes of our audit;
ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
iii) the Group has maintained proper books of account;
iv) the financial information included in the report of the Chairman is consistent with the books of account of the Group;
v) as disclosed in Note 8 to the consolidated financial statements, the Group has purchased and invested in shares during the financial year ended 31 December 2016;
vi) Note 27 to the consolidated financial statements discloses material related party transactions and balances, and the terms under which they were conducted.
vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has, during the financial year ended 31 December 2016, contravened any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the bank, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2016; and
viii) Note 21 to the consolidated financial statements disclose the social contributions made during the financial year ended 31 December 2016.

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.

Signed by:
Musa Ramahi
Partner
Registration No. 872

Deloitte & Touche (M.E)
Building 3, Level 6, Emaar Square, Downtown Dubai,
P.O.Box 4254, Dubai, United Arab Emirates

15 February 2017

Consolidated statement of financial position
At 31 December 2016

	Notes	2016 AED'000	2015 AED'000
Assets			
Cash and balances with the U.A.E. Central Bank	**5**	**1,642,905**	1,470,494
Due from other banks	**6**	**1,544,868**	1,351,893
Loans and advances	**7**	**8,808,894**	8,813,804
Investment securities	**8**	**1,143,186**	1,225,876
Customers' acceptances		**260,393**	295,542
Investment in an associate	**9**	**1,757**	1,647
Property and equipment	**10**	**68,124**	69,181
Other assets	**11**	**82,180**	154,991
Total assets		**13,552,307**	13,383,428
Liabilities			
Due to other banks	**12**	**70,000**	170,117
Customers' deposits	**13**	**9,012,959**	8,766,423
Customers' acceptances		**260,393**	295,542
Other liabilities	**14**	**222,821**	156,372
Total liabilities		**9,566,173**	9,388,454
Shareholders' equity			
Share capital	**15**	**1,848,000**	1,848,000
Statutory reserve	**16**	**1,019,266**	1,019,266
General reserve	**17**	**6,440**	6,440
Cumulative change in fair values		**34,343**	54,757
Retained earnings		**1,078,085**	1,066,511
Total shareholders' equity		**3,986,134**	3,994,974
Total liabilities and shareholders' equity		**13,552,307**	13,383,428
Commitments and contingent liabilities	**18**	**7,959,606**	7,658,578

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

Rashid Bin Saud Al Mualla
Chairman

Nasser Bin Rashid Al Moalla
Managing Director and Chief Executive Officer

Consolidated statement of income for the year ended 31 December 2016

	Notes	2016 AED'000	2015 AED'000
Interest income	**19**	**450,890**	465,888
Income from Islamic financing products		**47,689**	53,143
Total interest income and income from Islamic financing products		**498,579**	519,031
Interest expense	**19**	**(54,714)**	(44,994)
Distribution to depositors – Islamic products		**(500)**	(426)
Net interest income and income from Islamic products net of distribution to depositors		**443,365**	473,611
Fees and commission income		**46,488**	48,153
Other operating income	**20**	**34,120**	24,903
Gross income		**523,973**	546,667
Operating expenses	**21**	**(169,601)**	(179,623)
Operating income		**354,372**	367,044
Income from settlement of legal case	**22**	**-**	271,623
Investment gains	**23**	**41,850**	26,346
Impairment losses on investments securities-net	**8**	**(5,000)**	(13,561)
Provision for impairment of loans and advances - net	**7**	**(66,310)**	(109,184)
Share of profits from an associate	**9**	**822**	493
Profit for the year		**325,734**	542,761
Basic earnings per share (AED)	**25**	**0.18**	0.29

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	**325,734**	542,761
Other comprehensive (loss)/income		
Items that are or may be reclassified subsequently to profit or loss:		
Available-for-sale investments:		
Net (loss)/gain on available-for-sale investments recognised directly in equity (Note 8)	**(25,644)**	(171,588)
Loss reclassified to profit and loss on impairment of available-for-sale investments (Note 8)	**5,000**	13,561
Transfer from equity on sale of available-for-sale investments	**230**	(54)
Other comprehensive loss for the year	**(20,414)**	(158,081)
Total comprehensive income for the year	**305,320**	384,680

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	Cumulative change in fair values AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2014	1,680,000	1,019,266	6,440	212,838	876,550	3,795,094
Profit for the year	-	-	-	-	542,761	542,761
Other comprehensive loss for the year	-	-	-	(158,081)	-	(158,081)
Total comprehensive income for the year	-	-	-	(158,081)	542,761	384,680
Dividend paid	-	-	-	-	(184,800)	(184,800)
Bonus shares issued	168,000	-	-	-	(168,000)	-
Balance at 31 December 2015	1,848,000	1,019,266	6,440	54,757	1,066,511	3,994,974
Profit for the year	-	-	-	-	325,734	325,734
Other comprehensive loss for the year	-	-	-	(20,414)	-	(20,414)
Total comprehensive income for the year	-	-	-	(20,414)	325,734	305,320
Dividend paid (Note 26)	-	-	-	-	(314,160)	(314,160)
Balance at 31 December 2016	1,848,000	1,019,266	6,440	34,343	1,078,085	3,986,134

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
Cash flows from operating activities		
Profit for the year	**325,734**	542,761
Adjustments for:		
Provision for asset impairment - net	**71,310**	122,745
Depreciation of property and equipment	**12,559**	15,791
(Increase)/decrease in fair value of investment securities at FVTPL – held for trading	**(1,326)**	10,937
Discount amortised	**(360)**	(480)
Gain on disposal of investment securities	**(2,339)**	(26)
Gain on disposal of inventory	**(11,313)**	-
Dividend income	**(37,825)**	(36,712)
Share of profits from an associate	**(822)**	(493)
Loss/ (gain) on disposal of property and equipment	**143**	(320)
Income from settlement of legal case	**-**	(271,623)
Operating cash flows before changes in operating assets and liabilities	**355,761**	382,580
Increase in certificates of deposit with original maturity greater than 3 months	**(700,000)**	-
Decrease in term deposits with original maturity greater than 3 months	**-**	200,000
Decrease/(increase) in statutory deposit with U.A.E. Central Bank	**11,117**	(73,793)
Increase in loans and advances	**(61,400)**	(938,604)
Increase in other assets	**(3,926)**	(21,563)
Proceeds from disposal of inventory	**88,050**	-
(Decrease)/increase in due to other banks	**(100,117)**	170,117
Increase in customers' deposits	**246,536**	724,048
Increase in other liabilities	**66,532**	22,841
Net cash (used in)/generated from operating activities	**(97,447)**	465,626
Cash flows from investing activities		
Purchase of property and equipment	**(12,005)**	(10,468)
Proceeds from disposal of property and equipment	**360**	331
Purchase of investment securities	**(15,666)**	(271,937)
Proceeds from maturity and disposal of investment securities	**76,967**	338,845
Dividend received from investment securities	**37,825**	36,712
Dividend received from investment in an associate	**712**	346
Net cash generated from investing activities	**88,193**	93,829
Cash flows from financing activities		
Dividend paid	**(314,243)**	(181,322)
Proceeds from settlement of legal case	**-**	271,623
Net cash (used in)/generated from financing activities	**(314,243)**	90,301
Net (decrease)/increase in cash and cash equivalents	**(323,497)**	649,756
Cash and cash equivalents at the beginning of the year	**2,402,809**	1,753,053
Cash and cash equivalents at the end of the year (see Note 28)	**2,079,312**	2,402,809

Non-cash transaction:
During 2015, the Bank has signed an out of court settlement agreement with GIH, as a result of which, other assets and other liabilities were offset and reduced by AED 1,061 million respectively (see Note 22).
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

National Bank of Umm Al-Qaiwain (PSC) (the "Bank") is a Public Shareholding Company incorporated in the Emirate of Umm Al-Qaiwain ("UAQ") in the United Arab Emirates ("U.A.E.") by Amiri Decree Number (1) on January 5, 1982, issued by His Highness, the Ruler of Umm Al-Qaiwain, and commenced its operations with effect from August 1, 1982. The "Group" comprises National Bank of Umm Al-Qaiwain (PSC), Umm Al-Qaiwain, and Twin Towns Marketing Management (L.L.C.), Dubai (see Note 3.3). The address of the Bank's registered Head Office is P.O. Box 800, Umm Al-Qaiwain, United Arab Emirates.

The Bank is engaged in providing retail and corporate banking services through a network of 16 branches and 11 electronic banking service units in U.A.E.

The Bank carries out Islamic banking operations through Islamic banking window established in 2005 across all its branch network.

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

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

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

The following new and revised IFRSs, 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 revised IFRSs has not had any material impact on the amounts reported for the current and prior years 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: 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
- 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 IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34


2.2 New and revised IFRS in issue but not yet effective

The Bank has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017
Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: • 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
Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions	1 January 2018
Amendments to IFRS 4 *Insurance Contracts:* Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 *Investment Property:* 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
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9	When IFRS 9 is first applied

IFRS 7 *Financial Instruments*: *Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	When IFRS 9 is first applied

IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014)

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.	1 January 2018

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement.* The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **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 recognised
- **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.

IFRS 15 *Revenue from Contracts with Customers*	1 January 2018

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	
Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	1 January 2018
IFRS 16 *Leases*	1 January 2019
IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Bank's consolidated financial statements as and when they are applicable 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 Bank in the period of initial application.

Management anticipates that IFRS 9 will be adopted in the Bank's consolidated financial statements for the annual period beginning 1 January 2018. The application of IFRS 9 may have significant impact on amounts reported and disclosures made in the Bank's consolidated financial statements in respect of the Bank's financial assets and liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application of their standard as the Bank is in the process of performing a detailed review.

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. For the purpose of the consolidated financial statements, the results and financial position of the Bank are expressed in Arab Emirates Dirhams (in thousands), which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements. The principal accounting policies adopted are set out below.

The Bank presents its consolidated statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) presented in the notes.

3.3 Basis of consolidation

The consolidated financial statements of National Bank of Umm Al-Qaiwain (PSC) and Subsidiary (the "Group") incorporate the financial statements of the Bank and entity controlled by the Bank (its Subsidiary).

Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank 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 Bank 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 Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank 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 at previous shareholders' meetings.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank 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 and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiary:

Details of the Bank's subsidiary as at 31 December 2016 is as follows:

Name of subsidiary	Proportion of ownership interest	Country of Incorporation	Principal activity
Twin Towns Marketing Management (L.L.C.)	99.33%	U.A.E.	Marketing management

The remaining equity in the above subsidiary is held by the Bank beneficially through nominee arrangements.

3.4 Investment in an associate

An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate is incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated statement of income in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3.5 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3.6 Financial assets

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. It consists of cash and balances with the U.A.E. Central Bank, due from other banks, loans and advances, customers' acceptances and other assets.

Loans and advances are recognised when cash is advanced to the borrowers and are carried at amortised cost using effective interest rate method.


Impairment of loans and advances

Individually assessed loans

Individually assessed loans represent mainly, corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Bank in accordance with the original contractual terms.

Impaired loans are measured on the basis of the present value of expected future cash flows including observable market price or fair value of the collateral if any and the impairment loss is calculated based on the shortfall in the loans carrying value compared to the net present value of future cash flows.

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances calculated on:

a) Performing loans
b) Small value loans with common features, which are not individually significant.

Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the Bank believes that the assets are not impaired on the basis of the level of security/collateral available and/ or the stage of collection of amounts owed to the Bank.

Performing loans

The estimated impairment is calculated by the Bank's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Small value loans with common features, which are not individually significant

Small value loans represent mainly credit card dues and other loans which are not individually significant in value. Impairment of such loans is assessed based on ageing analysis of each bucket and impairment losses provided accordingly.

Re-ageing policy

The Bank has set out its re-ageing policy as part of the Credit Risk Policy. The Bank identifies forward shifting of past due date as re-ageing and complies with the Basel II guidelines on the re-ageing policy. This includes re-ageing criteria separately for normal and delinquent accounts, approval authorities, minimum age of the facility before it is eligible for re-ageing, maximum number of re-ageing per facility etc. Re-ageing is always considered based on reassessment of borrower's repayment capacity due to revised economic conditions.

Investment securities

The Bank classifies its investment securities in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of the investments at initial recognition.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets are designated at fair value through profit or loss when certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

ii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Where the Bank decides to sell other than an insignificant amount of held-to-maturity assets, the entire category is considered to be tainted and reclassified as available-for-sale.

iii) Available-for-sale

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

Initial recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available-for-sale are recognised on trade date which is the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of income.

Subsequent measurement

Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the consolidated statement of income in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. Once the available-for-sale financial asset is derecognised or impaired, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Foreign currency gains and losses arising on available-for-sale monetary financial assets are directly recognised in the consolidated statement of income.

The fair values of quoted investments in active markets are based on current prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques.

Interest earned whilst holding investment securities is reported as interest income. Dividends on equity instruments are recognised in the consolidated statement of income when the Bank's right to receive payment is established.

Amortised cost of a financial asset/liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on available-for-sale equity instruments are not reversed through the consolidated statement of income.

Derecognition of financial assets

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

3.7 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liabilities and an equity instrument.

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

Financial liabilities
Financial liabilities, including customers' deposits, customers' acceptances, due to other banks and other liabilities, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities
The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

3.8 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight line method to write off the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	**20**
Computers and equipment	**1 - 5**
Furniture and fixtures	**5**
Leasehold improvements	**3 - 5**
Motor vehicles	**5**

Land is not depreciated, as it is deemed to have an infinite life.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the consolidated statement of income when the expenditure is incurred. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount, being the higher of the fair value less costs to sell and value in use.

3.9 Inventory

Inventory represents property acquired in settlement of debt, stated at lower of cost or net realisable value. Directly attributable cost incurred in the acquisition of inventory is included as part of the cost of the asset. Net realisable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date.

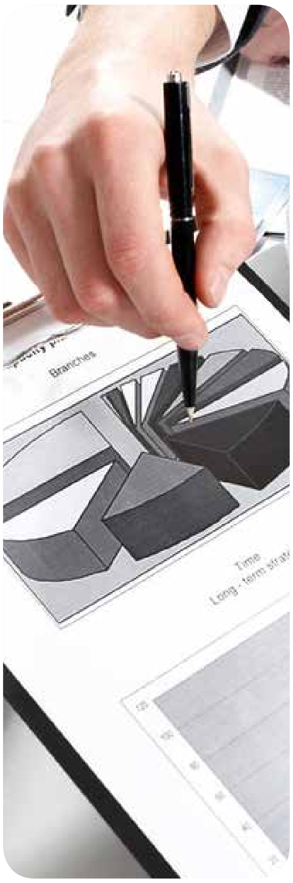
3.10 Impairment of tangible assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible 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 asset 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 Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 for which the estimates of future cash flows have not been adjusted.

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 (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.



3.11 Employees' end of service benefits

Pension contributions are made in respect of U.A.E. nationals to the U.A.E. General Pension and Social Security Authority in accordance with the U.A.E. Federal Law No (7), 1999 for Pension and Social Security. A provision is made for the full amount of end of service benefits due to the non-U.A.E. nationals in accordance with the U.A.E. Labour Law, for their periods of service up to the reporting date. This provision is included in other liabilities.

Management measures the employees' end of service benefits payable under the U.A.E. Labour law. Under this method an assessment is made of employee's expected service life with the Bank and the expected basic salary at the date of leaving the service.

3.12 Provisions

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

3.13 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred, and are subsequently stated at amortised cost using effective interest rate method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

3.14 Foreign currencies

Items included in the consolidated financial statements of the Bank are measured in UAE Dirhams which is the functional currency of the primary economic environment in which the Bank operates. Foreign currency transactions are translated into U.A.E. Dirhams at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into U.A.E. Dirhams at the rates ruling at the reporting date. Any resultant gains or losses are accounted for in the consolidated statement of income.

3.15 Derivative instruments

Derivative instruments, comprising forward foreign exchange contracts, are initially recognised at fair value on the date on which a derivative contract is entered. All forward foreign exchange contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of the forward foreign exchange contracts are included in foreign exchange trading income in the consolidated statement of income.

3.16 Interest income and expense

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.17 Fees and commission income

Commission income earned from the issue of documentary credits and letters of guarantee is recognised on a straight line basis over the period for which the documentary credits and guarantees are issued. Fee income on issue of letters of credit and guarantees is recognised when the underlying transaction is effected.

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

3.18 Rental income

Rental income are recognised on a straight-line basis over the term of the relevant lease.

3.19 Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight line basis over the shorter of the lease term or the estimated useful life of the asset.

3.20 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months, excluding the minimum reserve deposits required to be maintained with the U.A.E. Central Bank.

3.21 Islamic financing products

In addition to conventional banking products, the Bank offers its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.

All Islamic banking products are accounted for in conformity with the accounting policies described below:

Definitions

The following terms are used in Islamic financing:

Murabaha
A sales agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired and the customer will pay the commodity price on an instalment basis over a specific period. The selling price comprises the cost of the commodity and an agreed profit margin.

Mudaraba
A profit sharing agreement between the Bank and the customer whereby the customer provides the funds and the Bank invests the funds in a specific enterprises or activity and any profits generated are distributed accordingly to the terms and conditions of the profit sharing agreement. The customer bears the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala (Investment agency)
An agreement whereby the customer appoints the Bank to invest a certain sum of money according to the terms and conditions of the Wakala in return for a certain fee and any profit exceeding the expected profit. The Bank will bear any loss as a result of the misconduct, negligence or violation of the terms and conditions of the Wakala.

Accounting policy

Islamic financing products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income, if any.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing and investing products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.6). Islamic financing and investing products are written off only when all possible course of action to achieve recovery have proven unsuccessful.

Revenue recognition policy

Income from Islamic financing and investing assets are recognised in the consolidated statement of income using the effective profit method.

Murabaha
Murabaha income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Islamic customers' deposits and distributions to depositors

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

Distributions to depositors (Islamic products) represents the share of income allocated to depositors of the Bank. The distributions are calculated, allocated and distributed according to the Islamic Banking unit's standard procedures and are approved by the Islamic Banking unit's Sharia'a Supervisory Board.

4. Critical accounting estimates and judgements

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

Impairment losses on loans and advances
The Bank's accounting policy for allowances in relation to impaired financial assets carried at amortised cost is described in Note 3. Impairment is calculated on the basis of discounted estimated future cash flows or by applying a certain percentage on the performing unclassified loans and advances book based on market trend and historical pattern of defaults. For retail loans and advances impairment is calculated based on a formulaic approach depending on past due instalments and payments.

The allowance for loans and advances losses is established through charges to income in the form of an allowance. Increases and decreases in the allowance due to changes in the measurement of the impaired loans and advances are included in the allowance for loans and advances losses and effect the consolidated income statement accordingly.

i) Individually assessed loans
Impairment losses for individually assessed loans are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to the portfolio-based approach. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of an individual loan. The factors considered when determining impairment losses on individually assessed accounts are described below:

- The customer's aggregate borrowings
- The customer's risk rating, i.e. ability to perform profitable business and generate sufficient cash to repay the borrowed amount
- The value of the collateral and the probability of successful repossession
- The cost involved to recover the debts

The Bank's policy requires regular review of the level of impairment allowances on individual facilities. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Impaired loans and advances continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

Collectively assessed loans

The management of the Group assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans and advances which may be impaired but not identified as of the reporting date. These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly based on the judgment of management and guidance received from the UAE Central Bank.

In assessing collective impairment the Group uses the higher of 1.5% of credit risk weighted assets computed as per Central Bank of U.A.E. guidelines and an estimated impairment allowance as per the Bank's policies described above and IFRS.

The management believes that based on the review of loans and advances adequate impairment losses were provided in the consolidated financial statements against specific loans and advances and against risks inherent in the portfolio.

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Held- to-maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire category as available-for-sale and will be prevented from classifying under held-to-maturity for 2 years. The investments would therefore be measured at fair value and not at amortised cost.

Classification of investments

Management decides on acquisition of investment securities whether it should be classified as FVTPL - held for trading or available-for-sale securities. In judging the classification of the investments in securities, management has considered the detailed criteria for determination of such classification as set out in IAS 39 - Financial Instruments: Recognition and Measurement. Management is satisfied that its investments securities are appropriately classified.

5. Cash and balances with the U.A.E. Central Bank

	2016 AED'000	2015 AED'000
Balances with the U.A.E. Central Bank:		
Current account	**424,955**	620,970
Certificates of deposit	**700,000**	300,000
Statutory deposit	**408,461**	419,578
	1,533,416	1,340,548
Cash in hand	**109,489**	129,946
	1,642,905	1,470,494

The statutory deposit with the U.A.E. Central Bank is not available to finance the day to day operations of the Bank.

6. Due from other banks

	2016 AED'000	2015 AED'000
Term deposits	**1,491,612**	1,223,437
Demand deposits	**53,256**	128,456
	1,544,868	1,351,893

7. Loans and advances

	2016 AED'000	2015 AED'000
Loans	**7,296,831**	7,159,155
Overdrafts	**1,303,722**	1,327,694
Islamic financing products	**428,873**	454,985
Loans against trust receipts	**111,677**	164,273
Other	**49,976**	132,197
Total loans and advances	**9,191,079**	9,238,304
Provision for impairment	**(382,185)**	(424,500)
Net loans and advances	**8,808,894**	8,813,804
By economic sector		
Wholesale and retail trade	**1,430,768**	1,601,527
Real estate and construction	**2,982,578**	2,684,021
Personal loans and other	**1,045,628**	1,075,168
Manufacturing	**361,237**	332,331
Agriculture and allied activities	**31,641**	8,663
Transport and communication	**258,748**	253,885
Financial institutions	**1,089,075**	1,306,563
Services and other	**1,991,404**	1,976,146
	9,191,079	9,238,304

Movement in provision for impairment:

	2016			2015
	Against specific loans and advances AED'000	**Against risks inherent in the portfolio AED'000**	**Total AED'000**	Total AED'000
At 1 January	**254,685**	**169,815**	**424,500**	513,112
Provision made during the year	**96,206**	**4,575**	**100,781**	195,905
Provision released during the year	**(34,471)**	**-**	**(34,471)**	(86,721)
Written off/utilised during the year	**(108,666)**	**41**	**(108,625)**	(197,796)
Provision transferred during the year	**2,267**	**(2,267)**	**-**	-
At 31 December	**210,021**	**172,164**	**382,185**	424,500

Net charge for provision for impairment

	2016 AED'000	2015 AED'000
Provision made during the year	**100,781**	195,905
Provision released during the year	**(34,471)**	(86,721)
	66,310	109,184

The non-performing loans as at 31 December 2016 amounted to AED 637.46 million (2015: AED 674.96 million). Provisions for impairment in relation to such loans amounted to AED 210.02 million as at 31 December 2016 (2015: AED 254.69 million) (see Note 32).

8. Investment securities

	2016 AED'000	2015 AED'000
Securities at fair value through profit or loss		
- held for trading		
Quoted equity securities	**3,377**	18,406
Discretionary funds managed by third parties – quoted equity securities	**19,753**	17,937
	23,130	36,343
Securities available-for-sale		
Quoted equity securities	**658,674**	678,923
Unquoted equity securities	**6,205**	6,207
	664,879	685,130
Securities held-to-maturity		
Quoted debt instruments	**455,177**	504,403
	1,143,186	1,225,876

As of 31 December 2015, included in the above were Quoted debt instruments amounting to AED 73 million (fair value of AED 101.18 million) that were collateralised against a repurchase agreement with a bank (see Note 12).

Movement in investment securities:

	2016 AED'000	2015 AED'000
At the beginning of the year	**1,225,876**	1,474,857
Purchase of investment securities	**15,666**	271,937
Disposal and maturity of investment securities	**(74,398)**	(338,873)
Net fair value gain/(loss) on investment securities at fair value through profit and loss - held for trading	**1,549**	(9,867)
Net discount amortised on debt securities	**360**	480
Foreign exchange revaluation	**(223)**	(1,070)
Net fair value loss on investment securities available-for-sale directly recognised in equity	**(25,644)**	(171,588)
At 31 December	**1,143,186**	1,225,876

Impairment written back/losses on investment securities - net

	2016 AED'000	2015 AED'000
Impairment losses	**5,000**	14,339
Provision written back during the year	**-**	(778)
	5,000	13,561

9. Investment in an associate

The detail of associate is as follows:

Name of the associate	Principal activity	Place of incorporation	Ownership (%)	2016 Total AED'000	2015 Total AED'000
Tasareeh Business Men Center LLC	Providing visa application and renewal services, other business men services.	Dubai, UAE	30%	1,757	1,647

Movement in the investment in an associate for the year:

	2016 AED'000	2015 AED'000
Opening balance	**1,647**	1,500
Share of profits from an associate	**822**	493
Dividend received from an associate	**(712)**	(346)
At 31 December	**1,757**	1,647

Summarised financial information in respect of the Bank's associate which is accounted by equity method is set out below:

	2016 AED'000	2015 AED'000
Total assets	**7,496**	6,701
Total liabilities	**(1,639)**	(1,211)
Net assets	**5,857**	5,490
Bank's share of associate's net assets	**1,757**	1,647
Total revenue	**12,799**	8,983
Net profit for the year	**2,740**	1,643
Share of associate's net profit for the year	**822**	493

10. Property and equipment

	Land and buildings AED'000	Computers and equipment AED'000	Furniture and fixtures AED'000	Leasehold improvements AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost							
31 December 2014	107,268	94,851	5,002	9,719	1,722	3,450	222,012
Additions	116	6,619	131	10	-	3,592	10,468
Disposals	-	(1,618)	(4)	-	(510)	-	(2,132)
Transfers	1,804	1,478	-	-	-	(3,282)	-
31 December 2015	109,188	101,330	5,129	9,729	1,212	3,760	230,348
Additions	156	3,056	260	139	-	8,394	12,005
Disposals	(1,161)	(3,917)	(195)	(2,298)	(85)	-	(7,656)
Transfers	40	1,978	709	153	-	(2,880)	-
31 December 2016	**108,223**	**102,447**	**5,903**	**7,723**	**1,127**	**9,274**	**234,697**
Accumulated depreciation							
31 December 2014	57,235	76,737	4,815	7,387	1,323	-	147,497
Charge for the year	4,562	10,349	171	624	85	-	15,791
Eliminated on disposals	-	(1,607)	(4)	-	(510)	-	(2,121)
31 December 2015	**61,797**	**85,479**	**4,982**	**8,011**	**898**	**-**	**161,167**
Charge for the year	4,656	6,988	217	617	81	-	12,559
Eliminated on disposals	(1,161)	(3,868)	(195)	(1,844)	(85)	-	(7,153)
31 December 2016	**65,292**	**88,599**	**5,004**	**6,784**	**894**	**-**	**166,573**
Carrying amount							
31 December 2016	**42,931**	**13,848**	**899**	**939**	**233**	**9,274**	**68,124**
31 December 2015	47,391	15,851	147	1,718	314	3,760	69,181

Land and buildings include land costing AED 22.9 million (2015: AED 22.9 million) which is not depreciated.

Capital work in progress represents expenditure incurred on equipments and other leasehold improvements.

11. Other assets

	2016 AED'000	2015 AED'000
Inventory*	**10,896**	87,633
Interest receivable	**34,409**	27,295
Prepayments and deposits	**30,794**	34,805
Other	**6,081**	5,258
	82,180	154,991

*Inventory represents properties acquired in settlement of debt.

12. Due to other banks

	2016 AED'000	2015 AED'000
Repurchase agreement (Repo)	**-**	70,117
Demand deposits	**70,000**	100,000
	70,000	170,117

During 2015, the Bank had signed a repurchase agreement with another bank, on repricing terms of 3 months with maturity date of 6 January 2016 and interest charged at 0.75%. Collateral given against this Repo borrowing is disclosed in Note 8 to the consolidated financial statements.

By geographical area

	2016 AED'000	2015 AED'000
Within U.A.E.	**70,000**	100,000
Outside U.A.E	**-**	70,117
	70,000	170,117

13. Customers' deposits

	2016 AED'000	2015 AED'000
Time deposits	**6,751,936**	6,583,164
Savings deposits	**208,480**	193,912
Current accounts	**1,902,186**	1,823,895
Margin deposits	**51,854**	61,211
Islamic customers' deposits	**98,503**	104,241
	9,012,959	8,766,423

All customers' deposits are from customers within U.A.E.

14. Other liabilities

	2016 AED'000	2015 AED'000
Accounts payable	**63,597**	41,086
Interest payable	**29,793**	10,136
Provision for employees' end of service benefits	**29,266**	27,412
Other staff benefits	**1,123**	1,302
Dividend payable	**11,596**	11,679
Other	**87,446**	64,757
	222,821	156,372

Movement in provision for employees' end of service benefits:

	2016 AED'000	2015 AED'000
At 1 January	**27,412**	25,063
Provision made during the year (Note 24)	**2,305**	3,281
Payments made during the year	**(451)**	(932)
At 31 December	**29,266**	27,412

15. Share capital

	2016 AED'000	2015 AED'000
Issued and fully paid:	**1,848,000**	1,848,000
1,848 million ordinary shares of AED 1 each		

16. Statutory reserve

In accordance with the UAE Federal Law No (2) of 2015, as amended, and the U.A.E. Union Law No. 10 of 1980, as amended, 10% of the profit for the year is transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the paid up share capital. No profit was transferred in the current year to the statutory reserve, as it exceeds 50% of the issued share capital of the Bank. This reserve is not available for distribution.

17. General reserve

The Bank maintains a general reserve and the contributions to this reserve are made at the discretion of the Directors. This reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the Bank at an Ordinary General Meeting.

18. Commitments and contingent liabilities

a) The contractual amounts of the Bank's commitments and contingent liabilities are as follows:

	2016 AED'000	2015 AED'000
Guarantees	**5,773,109**	5,754,446
Letters of credit	**127,523**	110,625
Commitments to extend credit	**1,834,180**	1,529,633
Other	**224,794**	263,874
At 31 December	**7,959,606**	7,658,578
By geographical area		
Within U.A.E.	**7,871,978**	7,538,639
Outside the U.A.E.	**87,629**	119,939
	7,959,606	7,658,578

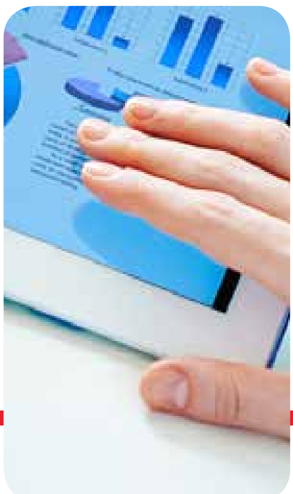
Guarantees, which represent irrevocable assurances that the Bank will make payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Letters of credit are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not quantifiable, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

While there is some risk associated with the remainder of commitments, the risk is viewed as low-modest, since it results firstly from the possibility of the unused portion of loan authorizations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments.

b) Capital commitments
At 31 December 2016, the Bank has capital commitments of AED 6.26 million (2015: AED 2.30 million).



19. Interest income and expense

	2016 AED'000	2015 AED'000
Interest income		
Loans and receivables		
Loans and advances	**419,974**	441,547
Deposits with the U.A.E. Central Bank	**2,334**	122
Other banks	**9,818**	6,982
Investment in debt securities	**18,764**	17,237
	450,890	465,888
Interest expense		
Financial liabilities at amortised cost		
Customers' deposits	**54,603**	44,755
Borrowings from other banks	**111**	239
	54,714	44,994

20. Other operating income

	2016 AED'000	2015 AED'000
Rental income	**7,984**	11,298
Foreign exchange income – net	**5,324**	5,704
Gain on disposal of inventory	**11,313**	-
Other	**9,499**	7,901
	34,120	24,903

21. Operating expenses

	2016 AED'000	2015 AED'000
Staff costs (Note 24)	**91,671**	97,591
Occupancy costs	**25,802**	25,371
Depreciation (Note 10)	**12,559**	15,791
Staff benefits (Note 24)	**9,185**	9,952
Fees and commission expenses	**1,252**	1,244
Other*	**29,132**	29,674
	169,601	179,623

* Includes an amount of AED 0.47 million (2015: AED 0.17 million) paid towards social contribution (including donation and charity) during the year.

22. Income from settlement of legal case

As of 31 December 2014, other liabilities included AED 918.25 million (equivalent of USD 250 million) received from Global Investment House - Kuwait ("GIH") as advance payment on the proposed issue of a bond convertible into 330 million shares of AED 1 each with a premium of AED 6.15 per share totalling AED 2.359 billion. This arrangement was entered through a Memorandum of Understanding (MOU) dated 16 July 2008. During December 2008, GIH sent a letter to the Bank withdrawing from the above transaction and requested a refund of the advance amount paid. Following legal advice the Bank did not repay the advance amount and proceeded for completion of the transaction by seeking the balance amount from GIH. Since the year 2008 till 2015, both parties (the Bank and GIH) were engaged in legal proceedings.

During the year 2015, both parties have signed an out of court settlement agreement to withdraw from legal proceedings and resolve all outstanding issues, claims and counter claims between them regarding the above mentioned case. As per the terms of settlement agreement, the Bank received an amount of AED 271.62 million (equivalent to USD 74 million) which was recognised as income from settlement of legal case during the year ended 31 December 2015.

23. Investment gains

	2016 AED'000	2015 AED'000
Dividend income		
a) Investment securities available-for-sale	**37,062**	35,860
b) Investment securities at fair value through profit and loss	**763**	852
Fair value gain/(loss) on investment securities at fair value through profit and loss	**1,549**	(9,867)
Foreign exchange revaluation	**(223)**	(1,070)
Net discount amortised on debt securities	**360**	480
Profit on disposal of investments		
a) Investment securities available-for-sale	**1,366**	26
b) Investment securities at fair value through profit and loss	**973**	-
Other	**-**	65
	41,850	26,346

23. Staff costs

	2016 AED'000	2015 AED'000
Staff costs		
Salaries and allowances	**89,265**	94,765
Staff training	**462**	1,006
Housing and medical	**1,944**	1,820
	91,671	97,591
Staff benefits		
Pension	**4,139**	4,025
End of service benefits (Note 14)	**2,305**	3,281
Other	**2,741**	2,646
	9,185	9,952

25. Basic earnings per share

The basic earnings per share is calculated by dividing the profit attributable to shareholders by the average number of ordinary shares in issue during the year.

	2016	2015
Profit for the year in AED	**325,734,000**	542,761,000
Average number of shares in issue	**1,848,000,000**	1,848,000,000
Basic earnings per share in AED	**0.18**	0.29

There were no potentially dilutive shares as at 31 December 2016 and 2015.

26. Dividend per share

At the Board meeting held on 15 February 2017, the Board of Directors proposed a cash dividend of 10 % amounting to AED 184.8 million for the year ended 31 December 2016 (2015: cash dividend amounting to 314.2 million).

27. Related party transactions

The Bank carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Bank, and all Directors of the Bank and companies in which such shareholders and Directors have a significant interest and key management personnel of the Bank.

During the year, the Bank entered into the following significant transactions with related parties in the ordinary course of business.

	2016 AED'000	2015 AED'000
Interest income	**24,443**	29,799
Interest expense	**28,445**	20,018
Remuneration of key management personnel	**6,227**	4,556
Other income	**1,819**	2,461
Directors' fees	**1,900**	1,900
Gain on disposal of inventory	**11,279**	-

The Group has entered into transactions with related parties which were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties.

Outstanding balances at the end of reporting date from transactions with related parties are as follows:

	2016 AED'000	2015 AED'000
Loans and advances	**788,143**	864,601
Customer deposits	**1,359,328**	1,392,260
Irrevocable commitments and contingent liabilities	**743,328**	1,023,563

28. Cash and cash equivalents

	2016 AED'000	2015 AED'000
Cash in hand and balances with U.A.E. Central bank (Note 5)	**1,642,905**	1,470,494
Term and demand deposits with other banks (Note 6)	**1,544,868**	1,351,893
Statutory deposits (Note 5)	**(408,461)**	(419,578)
Certificates of deposits with original maturity over 3 months	**(700,000)**	-
	2,079,312	2,402,809

29. Business segments

The Bank is organized into two main business segments:

Retail and corporate banking - wherein retail banking comprises private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages and corporate banking involves transactions with corporate bodies including government and public bodies and comprises loans, advances, deposits and trade finance transactions.

Treasury and investments - incorporating the activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the U.A.E. Central Bank and operations by the Bank's Head Office as a whole, none of which mutually constitute a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income and expense arising between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position items.

Primary segment information

31 December 2016	**Retail and corporate banking AED'000**	**Treasury and investments AED'000**	**Unallocated AED'000**	**Total AED'000**
Gross income	467,135	48,854	7,984	**523,973**
Segment result	339,903	84,184	(98,353)	**325,734**
Segment assets	8,464,784	5,019,130	68,393	**13,552,307**
Segment liabilities	9,273,393	281,184	11,596	**9,566,173**
31 December 2015				
Gross income	499,756	35,611	11,300	**546,667**
Segment result	323,186	46,481	173,094	**542,761**
Segment assets	8,331,309	4,972,000	80,119	**13,383,428**
Segment liabilities	9,002,544	374,231	11,679	**9,388,454**

30. Classification and fair value of financial and non-financial instruments

Assets **31 December 2016**	**Loans and receivables AED'000**	**Held-to-maturity AED'000**	**Held for trading AED'000**	**Available-for-sale AED'000**	**Non-financial instruments AED'000**	**Total AED'000**
Cash and balances with the U.A.E. Central Bank	1,642,905	-	-	-	-	**1,642,905**
Due from other banks	1,544,868	-	-	-	-	**1,544,868**
Loans and advances	8,808,894	-	-	-	-	**8,808,894**
Investment securities	-	455,177	23,130	664,879	-	**1,143,186**
Customers' acceptances	260,393	-	-	-	-	**260,393**
Investment in an associate	-	-	-	-	1,757	**1,757**
Property and equipment	-	-	-	-	68,124	**68,124**
Other assets	34,409	-	-	-	47,771	**82,180**
Total assets	**12,291,469**	**455,177**	**23,130**	**664,879**	**117,652**	**13,552,307**
31 December 2015						
Cash and balances with the U.A.E. Central Bank	1,470,494	-	-	-	-	1,470,494
Due from other banks	1,351,893	-	-	-	-	1,351,893
Loans and advances	8,813,804	-	-	-	-	8,813,804
Investment securities	-	504,403	36,343	685,130	-	1,225,876
Customers' acceptances	295,542	-	-	-	-	295,542
Investment in an associate	-	-	-	-	1,647	1,647
Property and equipment	-	-	-	-	69,181	69,181
Other assets	27,295	-	-	-	127,696	154,991
Total assets	11,959,028	504,403	36,343	685,130	198,524	13,383,428

Liabilities **31 December 2016**	**At amortised cost AED'000**	**Non-financial Instruments AED'000**	**Total AED'000**
Due to other banks	70,000	-	70,000
Customers' deposits	9,012,959	-	9,012,959
Customers' acceptances	260,393	-	260,393
Other liabilities	192,437	30,384	222,821
Total liabilities	**9,535,789**	**30,384**	**9,566,173**
31 December 2015			
	170,117	-	170,117
Customers' deposits	8,766,423	-	8,766,423
Customers' acceptances	295,542	-	295,542
Other liabilities	127,658	28,714	156,372
Total liabilities	9,359,740	28,714	9,388,454

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of financial instruments measured at amortised cost

The fair value of the quoted debt instruments at held-to-maturity at 31 December 2016 amounted to AED 470.81 million (31 December 2015: AED 542.48 million). The fair value determination of the quoted debt instruments will fall under level 1 category wherein fair value is determined based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Except as detailed above, the management considers that the carrying amounts of financial assets and liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2015.

Fair value of the Bank's financial assets that are measured at fair value on recurring basis

Some of the Bank's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined;

Financial assets	Fair value as at 31 December 2016 AED'000	31 December 2015 AED'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
Available-for-sale financial assets						
Quoted equity securities	**658,674**	678,923	Level 1	Quoted prices in an active market.	None	N/A
Unquoted equity securities - net	**6,205**	6,207	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets were determined based on the latest available audited/historical financial information.	Net asset value	Higher the net assets, value of the investees, higher the fair value.
Financial assets at FVTPL						
Quoted equity securities	**23,130**	36,343	Level 1	Quoted prices in an active market	None	N/A

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in table above.

The movement in the level 3 financial assets were due to exchange differences and changes in fair value.

31. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

Credit risk

The Bank assumes credit risk as part of its lending operations, which is identified as the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk exposures arise principally in loans and advances, due from banks and investment securities measured at amortized cost. There is also credit risk in off-balance sheet financial arrangements such as letters of credit, guarantees and undrawn loan commitments. The credit risk management and control are centralized in the Credit Risk Department with the following objectives:

- To measure, monitor and mitigate risks both at micro as well as macro level.
- To facilitate building and sustaining a high quality credit portfolio and minimise losses.
- Contain non-performing assets through preventive and curative management.
- To identify early warning signals and initiate timely corrective action.

Credit Risk Department has various units viz., Portfolio & Rating unit, Remedial Unit and Risk Containment Unit. Internal risk rating systems are implemented to comply with IRB Foundation norms of Basel II. Remedial Unit and Risk containment units are functioning to prevent accretion of non-performing assets through timely action and maximize recoveries through vigorous follow-up, classification of delinquent exposures and negotiate compromise proposals, wherever required. Note 31 summarize the Bank's exposure to credit risk.

Credit Risk Mitigation

Collateral - It is a common practice to obtain collateral securities to safeguard the interest of the Bank in case of default. Such mitigant are backed by proper documentation and legally binding agreements. The most common forms of tangible securities accepted by the Bank are land and building, listed equity shares, fixed deposits under lien, vehicles etc.

Other comforts - personal guarantees and corporate guarantees are also taken as comfort, wherever deemed essential.

Market risk

Market risk for the Bank refers to the risk because of which the value of its on or off-balance sheet positions are adversely affected due to movements primarily in interest rates, currency exchange rates and investment prices. Thus the volatility in market level of interest rates, foreign exchange rates and investment prices expose the Bank's earnings and capital to risk.

The market risk department of the Bank addresses these risks to the Assets and Liability Committee (ALCO) on a regular basis based on stipulated norms for Asset Liability Management and Investments. The ALCO takes corrective measures as per the Bank's internal market risk policies and strategic business directions.

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management endeavors to diversify funding sources on a continuous basis and manage assets with liquidity in mind. The day-to-day funds management is done at Treasury so as to maintain satisfactory liquid assets. The liquidity position is monitored and reported to top management on a daily basis. The Bank's ALCO has put in place the policies to manage the liquidity risk and monitor the position regularly. Note 33 summarizes the Bank's exposure to liquidity risk.

Interest rate risk

Interest rate risk is the potential that changes in interest rates may adversely affect the value of a financial instrument or portfolio, or the condition of the Bank as a whole. Although interest-rate risk arises in all types of financial instruments, it is most pronounced in debt instruments, derivatives that have debt instruments as their underlying reference asset, and other derivatives whose values are linked to market interest rates. In general, the values of longer-term instruments are often more sensitive to interest-rate changes than the values of shorter-term instruments. A part of interest rate risk can be labelled as yield curve risk, which refers to the imperfect correlation of interest rates of different maturities.

The Bank manages its interest rate sensitivity position based on anticipated and actual interest rate movements, in order to maximise net interest income ("NII"). The Bank analyses its interest rate sensitivity position based on the contractual repricing or maturity dates, whichever is earlier, regularly. The impact on the sensitivity position is calculated by way of 200 basis points ("bps") change in interest rates and resultant effect in the net interest income of the Bank. It is controlled through the limit prescribed for the same. Note 34 summarizes the Bank's exposure to interest rate risk.

During the year ended 31 December 2016, the effective interest rate on due from other banks was 0.88% (2015: 0.63%), certificate of deposits with Central Bank was 0.40% (2015: 0.10%), loans and advances was 5.21% (2015: 5.79%), investment securities at held-to-maturity was 1.60% (2015: 1.59%), customers' deposits was 0.62% (2015: 0.54%) and due to other banks was 0.70% (2015: 0.29%).

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored by the Treasury Department. Note 35 summarizes the Bank's exposure to foreign currency exchange risk.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all business activities and management of this risk is vital to the strategic objective of the Bank. While operational risk cannot be fully eliminated, management endeavor to minimize the losses by ensuring effective infrastructure, controls, systems and individuals are in place throughout the organization.

To accomplish the above objective, the Bank has dedicated operational risk management function, which is proactive in developing and implementing new methodologies for the identification, assessment, monitoring, and control of operational risk. Systems and procedures are in place with clear segregation of duties and reporting line to reduce operational risk. Compliance with the guidelines is monitored through robust internal control and comprehensive internal audit system.

The Bank has implemented under noted processes aimed at monitoring, and mitigating operational risks.

- Bottom up approach (Risk and Control Assessment) for identification and assessment of operational risks at all business units.
- Establishing a centralised database for capturing operational risk losses.

A comprehensive Business Contingency and Continuity Plan to anticipate stress situations and mitigate the risk associated with them is under implementation.

32. Credit risk

Asset quality and ageing as on 31 December 2016

	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Impaired			
Substandard	-	182,802	-
Doubtful	-	454,653	-
Loss	-	-	-
	-	**637,455**	**-**
Specific allowance for impairment	-	(210,021)	-
	-	**427,434**	**-**
Amount past due but not impaired			
Past due above 60 days	-	3,617	-
Past due less than 60 days	-	110,014	-
	-	**113,631**	**-**
Neither past due nor impaired	1,544,868	8,439,993	455,177
Collective allowances for impairment	-	(172,164)	-
	1,544,868	**8,267,829**	**455,177**
Carrying amount	**1,544,868**	**8,808,894**	**455,177**

Total collateral value is AED 14,799 million (2015: AED 13,886 million) against secured loans and advances of AED 6,410 million (2015: AED 6,128 million). The fair value of collateral on impaired loans is estimated to be AED 679 million (2015: AED 623 million).

Asset quality and ageing as on 31 December 2015

Impaired	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Substandard	-	150,434	-
Doubtful	-	488,241	-
Loss	-	36,284	-
	-	674,959	-
Specific allowance for impairment	-	(254,686)	-
	-	420,273	-
Amount past due but not impaired			
Past due above 60 days	-	19,960	-
Past due less than 60 days	-	35,008	-
	-	**54,968**	**-**
Neither past due nor impaired	1,351,893	8,508,377	504,403
Collective allowances for impairment	-	(169,814)	-
	1,351,893	8,338,563	**504,403**
Carrying amount	**1,351,893**	**8,813,804**	**504,403**

Geographical concentration of assets

31 December 2016	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Within U.A.E.	1,291,422	8,717,069	1,090,518
Within GCC countries	91,851	91,825	51,898
Other countries	161,595	-	770
	1,544,868	**8,808,894**	**1,143,186**

31 December 2015	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Within U.A.E.	880,000	8,721,979	1,175,702
Within GCC countries	92,390	91,825	49,402
Other countries	379,503	-	772
	1,351,893	**8,813,804**	**1,225,876**

31 December 2016

Rated and unrated exposure Asset classes	On Balance Sheet Gross Outstanding AED'000	Off Balance Sheet Exposure after CCF AED'000	Exposure before CRM AED'000	Credit Risk Mitigation (CRM) CRM AED'000	Exposure after CRM AED'000	Risk Weighted Assets AED'000
Claims on sovereigns	1,535,291	-	1,535,291	-	1,535,291	**-**
Claims on non-central Government public sector entities (PSEs)	128,678	-	128,678	-	128,678	**99,207**
Claims on banks	2,512,403	332	2,512,735	-	2,512,735	**849,236**
Claims on corporates	4,609,990	696,387	5,278,397	450,769	4,827,628	**4,827,628**
Claims included in the regulatory retail portfolio	888,560	2,612,641	3,501,315	2,153,369	1,347,946	**1,152,804**
Claims secured by commercial real estate	2,439,346	4,864	2,435,630	14,979	2,420,651	**2,420,651**
Past due loans	938,506	26,556	502,145	23,756	478,390	**630,470**
Other assets	920,103	-	915,824	-	915,824	**783,206**
Credit derivatives	-	407	407	-	407	**204**
Total claims	**13,972,877**	**3,341,187**	**16,810,422**	**2,642,873**	**14,167,550**	**10,763,406**

Total credit risk weighted assets	**10,763,406**

31 December 2015

Asset classes	On Balance Sheet Gross Outstanding AED'000	Off Balance Sheet Exposure after CCF AED'000	Exposure before CRM AED'000	Credit Risk Mitigation (CRM) CRM AED'000	Exposure after CRM AED'000	Risk Weighted Assets AED'000
Claims on sovereigns	1,340,836	-	1,340,836	-	1,340,836	**-**
Claims on non-central Government public sector entities (PSEs)	203,444	225	203,669	25,035	178,634	**138,837**
Claims on banks	2,486,344	81,049	2,567,393	70,117	2,497,276	**847,211**
Claims on corporates	4,444,853	1,168,038	5,599,656	483,516	5,102,870	**5,112,385**
Claims included in the regulatory retail portfolio	1,092,094	2,209,601	3,302,441	2,126,584	1,175,857	**991,705**
Claims secured by residential property	8,314	-	8,314	-	8,314	**7,903**
Claims secured by commercial real estate	2,222,114	-	2,222,114	11,003	2,211,111	**2,211,111**
Past due loans	959,635	7,084	451,952	25,090	426,863	**525,364**
Other assets	1,055,042	-	1,050,764	-	1,050,764	**884,475**
Credit derivatives	-	693	693	-	693	**346**
Total claims	13,812,676	3,466,690	16,747,832	2,741,345	13,993,218	**10,719,337**

Total credit risk weighted assets	**10,719,337**

33. Liquidity risk

The maturities of assets and liabilities have been determined on the basis of contractual maturity. The table below sets out the Bank's assets, liabilities and equity at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Maturity profile

Assets

31 December 2016

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Cash and balances with the U.A.E. Central Bank	534,444	50,000	650,000	408,461	-	-	1,642,905
Due from other banks	1,489,773	55,095	-	-	-	-	1,544,868
Loans and advances	413,075	239,424	1,205,628	4,887,780	2,062,987	-	8,808,894
Investment securities	232,099	-	481,606	356,021	73,460	-	1,143,186
Customers' acceptances	55,557	80,161	99,397	25,278	-	-	260,393
Other financial assets	34,409	-	-	-	-	-	34,409
Non-financial assets	-	-	-	-	-	117,652	117,652
Total	**2,759,357**	**424,680**	**2,436,631**	**5,677,540**	**2,136,447**	**117,652**	**13,552,307**

31 December 2015

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Cash and balances with the U.A.E. Central Bank	1,050,916	-	-	419,578	-	-	1,470,494
Due from other banks	1,351,893	-	-	-	-	-	1,351,893
Loans and advances	475,397	382,754	1,345,355	4,722,418	1,887,880	-	8,813,804
Investment securities	216,442	-	554,587	381,387	73,460	-	1,225,876
Customers' acceptances	47,130	108,113	116,236	24,063	-	-	295,542
Other financial assets	27,295	-	-	-	-	-	27,295
Non-financial assets	-	-	-	-	-	198,524	198,524
Total	**3,169,073**	**490,867**	**2,016,178**	**5,547,446**	**1,961,340**	**198,524**	**13,383,428**

33. Liquidity risk

Maturity profile

Liabilities, equity and off balance sheet items

31 December 2016

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Due to other banks	70,000	-	-	-	-	-	70,000
Customers' deposits	1,168,330	842,341	1,930,382	5,069,646	2,260	-	9,012,959
Customers' acceptances	55,557	80,161	99,397	25,278	-	-	260,393
Other financial liabilities	60,805	75,817	24,114	25,123	6,578	-	192,437
Non-financial liabilities	-	-	-	-	-	30,384	30,384
Shareholders' equity	-	-	-	-	-	3,986,134	3,986,134
A Total on-balance sheet items	**1,354,692**	**998,319**	**2,053,893**	**5,120,047**	**8,838**	**4,016,518**	**13,552,307**
Forward rate contracts	154,721	13,571	7,638	-	-	-	175,930
Guarantees	6,929	-	20,788	-	-	-	27,717
Unavailed limits	711,583	175,588	591,447	150,000	-	-	1,628,618
B Total off-balance sheet items	**873,233**	**189,159**	**619,873**	**150,000**	**-**	**-**	**1,832,265**
Grand total [A+B]	**2,227,925**	**1,187,478**	**2,673,766**	**5,270,047**	**8,838**	**4,016,518**	**15,384,572**

31 December 2015

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Due to other banks	170,117	-	-	-	-	-	170,117
Customers' deposits	1,290,935	797,453	1,382,414	5,294,335	1,286	-	8,766,423
Customers' acceptances	47,130	108,113	116,236	24,063	-	-	295,542
Other financial liabilities	4,644	44,089	47,172	30,567	1,186	-	127,658
Non-financial liabilities	-	-	-	-	-	28,714	28,714
Shareholders' equity	-	-	-	-	-	3,994,974	3,994,974
A Total on-balance sheet items	**1,512,826**	**949,655**	**1,545,822**	**5,348,965**	**2,472**	**4,023,688**	**13,383,428**
Forward rate contracts	36,321	36,384	27,513	-	-	-	100,218
Spot/split sale	42,986	-	-	-	-	-	42,986
Guarantees	7	-	21	-	-	-	28
Unavailed limits	656,155	113,035	512,793	-	-	-	1,281,983
B Total off-balance sheet items	**735,469**	**149,419**	**540,327**	**-**	**-**	**-**	**1,425,215**
Grand total [A+B]	**2,248,295**	**1,099,074**	**2,086,149**	**5,348,965**	**2,472**	**4,023,688**	**14,808,643**

34. Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2016

Financial assets	Less than 3 months AED'000	From 3 months - 1 year AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
Cash and balances with the U.A.E. Central bank	50,000	650,000	-	942,905	1,642,905
Due from other banks	1,491,612	-	-	53,256	1,544,868
Loans and advances	5,204,542	150,895	3,437,879	15,578	8,808,894
Investment securities	25,696	-	429,481	688,009	1,143,186
Customers' acceptances	-	-	-	260,393	260,393
Other financial assets	-	-	-	34,409	34,409
Total	**6,771,850**	**800,895**	**3,867,360**	**1,994,550**	**13,434,655**
Financial liabilities					
Due to other banks	70,000	-	-	-	70,000
Customers' deposits	974,811	1,397,182	380,123	6,260,843	9,012,959
Customers' acceptances	-	-	-	260,393	260,393
Other financial liabilities	-	-	-	192,437	192,437
Total	**1,044,811**	**1,397,182**	**380,123**	**6,713,673**	**9,535,789**
On balance sheet interest rate sensitivity gap	**5,727,039**	**(596,287)**	**3,487,237**	**(4,719,123)**	**3,898,866**
Off balance sheet interest rate sensitivity gap	**-**	**-**	**-**	**(1,656,336)**	**(1,656,336)**
Cumulative interest rate sensitivity gap	**5,727,039**	**(596,287)**	**3,487,237**	**(6,375,459)**	**2,242,530**
At 31 December 2015					
Total financial assets	7,089,062	235,188	3,497,278	2,363,376	13,184,904
Total financial liabilities	1,280,847	901,008	680,167	6,497,718	9,359,740
On balance sheet interest rate sensitivity gap	5,808,215	(665,820)	2,817,111	(4,134,342)	3,825,164
Off balance sheet interest rate sensitivity gap	-	-	-	(1,282,011)	(1,282,011)
Cumulative interest rate sensitivity gap	5,808,215	(665,820)	2,817,111	(5,416,353)	2,543,153

Rate sensitivity analysis

At the reporting date if interest rates had been 200 bps higher and all the other variables were held constant, the Bank's:

- Net interest income would have increased by AED 102.56 million (2015: AED 106.70 million).
- Other equity reserves would have decreased by AED 431.03 million based on EVE analysis (2015: AED 379.96 million)

Method and assumptions for sensitivity analysis

- Since interest rates are almost at the lower end of the interest rate cycles, hence rate sensitive analysis is undertaken.
- If interest rates may go up by 200 bps. 200bps is taken as per Basel guidelines.
- Interest rate change takes place uniformly across all time buckets upto 1 year for net interest income impact.
- Interest rate change takes place at the mid point of each time bucket.
- Other parameters remain unchanged.
- Impact on net interest income upto next 1 year is worked out.
- For impact on equity, (EVE analysis), weighted modified duration of Rate Sensitive Assets ("RSA") and Rate Sensitive Liabilities ("RSL") for all buckets has been worked out and its net impact calculated.
- RSA and RSL have been captured based on earlier of the re-pricing or maturity date.

35. Currency risk

Concentration of assets and liabilities by currency:

At 31 December 2016	AED AED'000	USD AED'000	Other AED'000	Total AED'000
Financial assets				
Cash and balances with the U.A.E. Central Bank	**1,635,875**	**7,030**	**-**	**1,642,905**
Due from other banks	**1,330,000**	**190,295**	**24,573**	**1,544,868**
Loans and advances	**8,095,848**	**712,676**	**370**	**8,808,894**
Investment securities	**629,413**	**461,876**	**51,897**	**1,143,186**
Customers' acceptances	**260,393**	**-**	**-**	**260,393**
Other financial assets	**29,473**	**4,936**	**-**	**34,409**
Total financial assets	**11,981,002**	**1,376,813**	**76,840**	**13,434,655**
Financial liabilities				
Due to other banks	**70,000**	**-**	**-**	**70,000**
Customers' deposits	**8,974,251**	**24,157**	**14,551**	**9,012,959**
Customers' acceptances	**260,393**	**-**	**-**	**260,393**
Other financial liabilities	**192,423**	**14**	**-**	**192,437**
Total financial liabilities	**9,497,067**	**24,171**	**14,551**	**9,535,789**
Net balance sheet position	**2,483,935**	**1,352,642**	**62,289**	**3,898,876**
Off balance sheet position	**7,686,030**	**207,948**	**65,628**	**7,959,606**

At 31 December 2015	AED AED'000	USD AED'000	Other AED'000	Total AED'000
Total financial assets	11,301,000	1,753,695	130,209	13,184,904
Total financial liabilities	9,256,102	81,963	21,675	9,359,740
Net balance sheet position	2,044,898	1,671,732	108,534	3,825,164
Off balance sheet position	7,324,406	206,035	128,137	7,658,578

Rate sensitivity analysis

- Currencies are divided into two categories i) those pegged with USD and ii) all other currencies as on the Balance Sheet date
- Exchange rate change of 2% in AED against the respective pegged foreign currencies and exchange rate change of 10% in AED against the respective other foreign currencies have been used to give a realistic assessment as a plausible event.
- Based on these changes the impact on profit or loss and equity has been worked out.

Year 2016	**Foreign currency assets AED'000**	**Foreign currency liabilities AED'000**	**Net forward purchase/ (sale) AED'000**	**Net long/ (short) position AED'000**	**Impact on statement of income and equity AED'000**
Pegged Currencies					
US Dollar	1,376,600	33,498	(137,001)	1,206,101	(24,122)
Saudi Riyal	32,369	-	-	32,369	(647)
Bahrain Dinar	150	-	-	150	(3)
Omani Riyal	206	-	-	206	(4)
Qatar Riyal	324	8	-	316	(6)
Other Currencies					
Kuwait Dinar	14,677	-	-	14,677	(1,468)
Great British Pound	9,664	8,214	(1,546)	(96)	10
Euro	11,434	6,118	(5,025)	291	(29)
Swiss Frank	388	8	(361)	19	(2)
Japanese Yen	1,209	65	(1,225)	(81)	8
Indian Rupee	13	-	-	13	(1)
Lankan Rupee	5	-	-	5	(1)
Jordanian Dinar	258	-	-	258	(26)
Canadian Dollar	342	147	(273)	(78)	8
	1,447,639	**48,058**	**(145,431)**	**(1,254,150)**	
Total impact if foreign currency fluctuates against AED					**+/-26,283**

Year 2015	**Foreign currency assets AED'000**	**Foreign currency liabilities AED'000**	**Net forward purchase/ (sale) AED'000**	**Net long/ (short) position AED'000**	**Impact on statement of income and equity AED'000**
Pegged Currencies					
US Dollar	1,756,691	91,700	67,649	1,732,640	(34,653)
Saudi Riyal	31,513	-	-	31,513	(630)
Bahrain Dinar	427	-	-	427	(9)
Omani Riyal	283	-	-	283	(6)
Qatar Riyal	540	8	-	532	(11)
Other Currencies					
Kuwait Dinar	12,956	-	-	12,956	(1,296)
Great British Pound	6,784	6,933	136	(13)	1
Euro	66,184	14,427	(51,487)	270	(27)
Swiss Frank	560	202	(372)	(14)	1
Japanese Yen	1,532	61	(1,464)	7	(1)
Indian Rupee	15	-	-	15	(2)
Lankan Rupee	5	-	-	5	(1)
Jordanian Dinar	20	-	-	20	(2)
Canadian Dollar	334	199	(265)	(130)	13
	1,877,844	**113,530**	**14,197**	**1,778,511**	
Total impact if foreign currency fluctuates against AED					**+/-36,623**

36. Equity price risk

Sensitivity analysis

At the reporting date if the equity prices are 20% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Bank's:

- Consolidated statement of comprehensive income would have increased/decreased by AED 132.98 million (2015: AED 137.03 million) and consolidated statement of income would have increased/decreased by AED 4.63 million (2015: 7.27 million).

Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the reporting date.

- As at the reporting date if equity prices are 20% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and equity has been shown above.

- A 20% change in equity prices has been used to give a realistic assessment as a plausible event.

37. Capital management

Bank's capital management policy is to maintain a strong capital base to support the development and growth of business. Current and future capital requirements are determined on the basis of loan growth expectations for each business unit, expected growth in off-balance sheet facilities, future sources and uses of funds and Bank's future dividend policy. The Bank also ensures compliance with externally imposed capital requirement norms, strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. During the year the Bank had complied in full with all external imposed capital requirements. The U.A.E. Central Bank requires the banks in U.A.E. to maintain a ratio of total regulatory capital to the risk weighted assets at or above the agreed minimum of 12%.

Capital structure

The table below details the regulatory capital resources of the Bank:

	2016 AED'000	2015 AED'000
Tier 1 Capital		
Share capital	**1,848,000**	1,848,000
Statutory reserve	**1,019,266**	1,019,266
General reserve	**6,440**	6,440
Retained earnings	**1,078,085**	1,066,511
Total Tier 1	**3,951,791**	3,940,217
Tier 2 Capital		
Fair value reserve on investment securities available-for-sale	**15,455**	24,641
General reserves on unclassified loans and advances to customers	**134,543**	133,992
Total Tier 2	**149,998**	158,633
Total Regulatory Capital	**4,101,789**	4,098,850
Capital adequacy ratios		
Risk weighted assets :		
Credit risk-weighted assets	**10,763,406**	10,719,337
Market risk-weighted assets	**62,321**	88,366
Operations risk-weighted assets	**1,030,472**	1,009,709
Total risk-weighted assets	**11,856,199**	11,817,412

Capital adequacy ratio (percent)	2016 %	2015 %
Tier 1 ratio (Tier 1 capital/total risk weighted assets)	**33.33**	33.34
Tier 2 ratio (Tier 2 capital/Tier 1 capital)	**3.8**	4.0
Total capital adequacy ratio (total regulatory capital/total risk weighted assets)	**34.6**	34.68
Minimum capital adequacy ratio required by UAE Central Bank	**12**	12

38. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 15 February 2017.