NATIONAL BANK OF UMM AL-QAIWAIN (PSC)
AND SUBSIDIARY

Consolidated financial statements and
independent auditor's report
for the year ended 31 December 2018

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

NATIONAL BANK OF UMM AL-QAIWAIN (PSC) AND SUBSIDIARY

Contents **Pages**

بنك أم القيوين
NBQ

CHAIRMAN'S REPORT

On behalf of the Board, I am pleased to welcome you all to the 36th Annual General Meeting of the bank and present the annual report of the Board of Directors for the year ended 31 December 2018.

Despite challenging economic scenario and the competition in the banking industry, it is my pleasure to inform that the Bank has achieved net profit of AED 409.02 million which is 10.62% more than last year. Our total revenue reached AED 746.97 million and operating income stood at AED 448.92 million for the year ended 31 December 2018.

Total assets reached AED 14.66 billion. Loans and advances were at AED 8.92 billion, while customer deposits stood at AED 9.76 billion. The Bank holds collateral and specific provision to the tune of 155% of the non-performing loans, which reflects prudent management and effective monitoring of our loans and advances portfolio. The Bank has consistently maintained high level of liquidity as in the past and liquidity ratio as of 31 December 2018 stands at 33.7%. Cost to income ratio is 22.86%.

Shareholders' equity amounted to AED 4.46 billion as at 31 December 2018 (2017: AED 4.17 billion). We continue to maintain one of the highest capital adequacy ratios in the banking industry which stands at 36.73% and is higher than the minimum prescribed levels stipulated by the UAE Central Bank. This demonstrates the financial strength of the Bank and its capacity to expand its lending and investment capability, when needed. Tier 1 ratio is recorded at 35.59%, which is also substantially higher than the prescribed limits stipulated by the regulatory authorities.

Payment of cash dividend of 11% of the Share Capital for the year ending 31 December 2018 is subject to approval of the UAE Central Bank.

During 2018, the UAE's economic growth was estimated at around 2.8% with 3.3% growth in non-oil GDP, which currently accounts for 77% of the economy. The UAE's economic growth is set to accelerate next year as non-oil revenue expands on the back of government measures introduced in 2018 and higher spending. The CBUAE forecasts that the economy will accelerate to 4.2% in 2019 as a result of government reforms & measures. Markets expect the oil price to continue its gradual upward movement due to agreement on oil cut by OPEC & sanctions on Iran.

US Federal Reserve raised interest rates 4 times during the year. Interest rates in UAE are expected to stabilize or slightly rise during 2019 after registering a steep upward trend in 2018. Umm Al Qaiwain, where the Bank is head quartered, is witnessing higher developmental activities in the infrastructure front. During 2019, banking sector in UAE is expected to increase their credit portfolio to support high quality industries and contribute to the overall growth of the economy.

US economic activity showed strength in 2018 by registering improvements in growth rate, inflation and employment data. Europe showed signs of recovery while China faced slowing down of its economy with the ongoing trade war with US. However India posted increase in growth rate after recovering from the after effects of disruptions like demonetization and implementation of Goods and Services Tax.

بنك أم القيوين
NBQ

World Bank expects global economic growth of 2.9% in 2018 while it is expected to slow down to 2.8% in 2019 due to weakening trade & manufacturing, tighter financing conditions & elevated policy uncertainties. Growth in emerging market and developing economies is projected to strengthen to 4.2% in 2018.

Growth in GCC is expected to reach around 2.7% by 2020 supported by high energy prices, rising government spending, rising infrastructure investments and reforms to promote non-oil sector activities with the introduction of Value Added Tax with effect from 1st January 2018.

Equity market indices in the GCC remained mostly stable in 2018 and are slated to move up in 2019 which will be assisted by robust economic growth expectations.

Going forward, the Bank has framed 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 the continued support for the development of the Bank.

We would also like to state our sincere appreciation for the on-going initiatives and support provided by 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 sincere appreciation and gratitude to our shareholders, customers and correspondent banks for achieving our objectives and maintaining continued success in our operations.

We have a good team of talented management officials and staff members who are committed and loyal to the Bank and we value their contribution. 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 future challenges.

RASHID BIN SAUD AL MUALLA
Chairman

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INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of 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 2018, 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 2018, 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 matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this matter.

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INDEPENDENT AUDITOR'S REPORT (continued)
to the Shareholders of National Bank of Umm Al-Qaiwain (PSC)

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances as per IFRS 9	
The audit of impairment of loans and advances is a key area of focus because of the size of loans and advances (representing 61% of total assets) and due to the significance of the estimates and judgments used in classifying loans and advances into various stages and determining related provision requirements as per the expected credit loss model under IFRS 9. Further, there were significant changes in the accounting policies, extensive transition disclosure requirements and numerous estimates and judgements involved in the first time adoption of IFRS 9. The Group has applied the requirement of IFRS 9 retrospectively without restating the comparative figures. The differences between previously reported carrying amounts as of 31 December 2017 and new carrying amounts as of 1 January 2018 amounting to AED 22.83 million has been recognized as an adjustment to the opening retained earnings (see Note 2.1). The key changes arising from the adoption of IFRS 9 are that the Group's credit losses are now based on expected credit losses ("ECL") rather than an incurred loss model. The Group employs statistical models for ECL calculations and the key risk parameters used in these calculations are probability of default (PD), loss given default (LGD); and exposure at default (EAD), which are defined in Note 3 to the consolidated financial statements.	We obtained a detailed understanding of the Group's loans and advances business processes and the accounting policies on adoption of IFRS 9 including the critical accounting estimates and judgments used. We have audited the IFRS 9 ECL models as of 1 January 2018 and 31 December 2018. We tested the design, implementation and operating effectiveness of the relevant controls which included testing: • Controls over the timely recognition of impaired loans and advances; • Controls over governance and approval process related to impairment provisions and ECL Models We understood and evaluated the theoretical soundness of the ECL model by involving our internal experts to ensure its compliance with the minimum requirements of the standard. We tested the mathematical integrity of the ECL model by performing recalculations on a sample of loans and advances. We checked consistency of various inputs and assumptions used by the Group's management to determine impairment. We selected a sample of loans and advances and checked the accuracy of the Exposure at Default (EAD), appropriateness of the Probability of Default (PD) and calculations of the Loss Given Default (LGD) used by the management in their ECL calculations.

INDEPENDENT AUDITOR'S REPORT (continued)
to the Shareholders of National Bank of Umm Al-Qaiwain (PSC)

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances as per IFRS 9 (continued)	
In determining the ECL provisions for loans and advances, the Bank applies significant judgements and estimates, as disclosed in Note 4 to the consolidated financial statements, of the following areas: • Identification of significant increase in credit risk and credit impaired loans • Qualitative and quantitative reasonable and supportable forward-looking information • Overrides in staging model applied to reflect current or future external factors that are not necessarily covered in the ECL model • Assumptions used in determining financial condition of the counterparty and expected future cash flows Individually assessed loans represent mainly, corporate and commercial loans which are assessed 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 Group in accordance with the original contractual terms and are classified as stage 3 as per IFRS 9. Impaired loans and advances are measured on the basis of the present value of expected future cash flows including observable market price or fair value of the collateral and many other factors which involve a significant degree of judgment.	We checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. For samples of exposures, we checked the appropriateness of the Group's staging and challenged a sample of manual staging overrides undertaken by management. For forward looking assumptions used by the Group's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information. For exposures determined to be individually impaired, we tested a sample of loans and advances and examined management's estimate of future cash flows, assessed their reasonableness and checked the resultant provision calculations. 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 estimated recovery on default. We checked the appropriateness of the opening balance adjustments and have ensured Group's full compliance with the transitional disclosure requirements as per the relevant standards, as well as the completeness and sufficiency of the year end disclosures.

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INDEPENDENT AUDITOR'S REPORT (continued)
to the Shareholders of National Bank of Umm Al-Qaiwain (PSC)

Other information

The Board of Directors and management is responsible for the other information. The other information comprises the annual report of the Group. We obtained the Chairman's report, prior to the date of this auditors' report and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)
to the Shareholders of National Bank of Umm Al-Qaiwain (PSC)

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

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

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

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

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

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

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT (continued)
to the Shareholders of National Bank of Umm Al-Qaiwain (PSC)

Report on Other Legal and Regulatory Requirements

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- 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;
- the Group has maintained proper books of account;
- the financial information included in the Chairman's report is consistent with the books of account of the Group;
- 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 2018;
- Note 26 to the consolidated financial statements discloses material related party transactions and balances, and the terms under which they were conducted.
- 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 2018, contravened any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2018;
- Note 21 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2018.

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

Deloitte & Touche (M.E)

Musa Ramahi
Registration No. 872
27 January 2019
Dubai
United Arab Emirates

Consolidated statement of financial position
At 31 December 2018

	Notes	2018 AED '000	2017 AED '000
Assets			
Cash and balances with the U.A.E. Central Bank	5	**1,521,021**	2,042,785
Due from other banks	6	**2,642,820**	1,080,246
Loans and advances	7	**8,924,912**	9,461,437
Investment securities	8	**1,134,222**	1,101,176
Customers' acceptances		**234,106**	220,244
Investment in an associate	9	**1,625**	1,650
Property and equipment	10	**67,675**	68,550
Other assets	11	**138,467**	146,447
Total assets		**14,664,848**	14,122,535
Liabilities			
Due to other banks	12	**20**	3,498
Customers' deposits	13	**9,757,942**	9,510,551
Customers' acceptances		**235,027**	220,244
Other liabilities	14	**208,506**	214,628
Total liabilities		**10,201,495**	9,948,921
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		**126,447**	36,868
Retained earnings		**1,463,200**	1,263,040
Total shareholders' equity		**4,463,353**	4,173,614
Total liabilities and shareholders' equity		**14,664,848**	14,122,535
Commitments and contingencies	18	**6,724,082**	7,776,518

Rashid Bin Saud Al Mualla
Chairman

Nasser Bin Rashid Al Moalla
Vice Chairman and
Chairman of Executive Committee

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

Consolidated statement of income
for the year ended 31 December 2018

	Notes	2018 AED '000	2017 AED '000
Interest income	19	559,727	474,546
Income from Islamic financing products		40,300	45,882
Total interest income and income from Islamic financing products		600,027	520,428
Interest expense	19	(83,075)	(64,424)
Distribution to depositors – Islamic products		(1,097)	(411)
Net interest income and income from Islamic products net of distribution to depositors		515,855	455,593
Fees and commission income		50,340	48,895
Other operating income	20	34,242	27,779
Gross income		600,437	532,267
Operating expenses	21	(151,514)	(181,839)
Operating income		448,923	350,428
Investment gains	22	62,360	39,564
Provision for impairment of loans and advances – net	7	(102,931)	(21,011)
Share of profits from an associate	9	668	774
Profit for the year		409,020	369,755
Basic earnings per share (AED)	24	0.22	0.20

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

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

	2018 AED '000	2017 AED '000
Profit for the year	**409,020**	369,755
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss		
Net fair value gain on investment securities carried at FVTOCI - equity	**96,651**	-
Items that are or may be reclassified subsequently to profit or loss:		
Net fair value gain on available for sale equity investments	**-**	2,506
Transfer from equity on sale of available for sale equity investments	**-**	19
Other comprehensive income for the year	**96,651**	2,525
Total comprehensive income for the year	**505,671**	372,280

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

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

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Investments Cumulative change in fair values AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2016	1,848,000	1,019,266	6,440	34,343	1,078,085	3,986,134
Profit for the year	-	-	-	-	369,755	369,755
Other comprehensive income for the year	-	-	-	2,525	-	2,525
Total comprehensive income for the year	-	-	-	2,525	369,755	372,280
Dividend paid	-	-	-	-	(184,800)	(184,800)
Balance at 31 December 2017 (as previously reported)	1,848,000	1,019,266	6,440	36,868	1,263,040	4,173,614
Impact on adoption of IFRS 9 (Note 2.1)	-	-	-	-	(27,829)	(27,829)
Transfer within equity on adoption of IFRS 9	-	-	-	(5,000)	5,000	-
As at 1 January 2018 (restated)	1,848,000	1,019,266	6,440	31,868	1,240,211	4,145,785
Profit for the year	-	-	-	-	409,020	409,020
Other comprehensive income for the year	-	-	-	96,651	-	96,651
Total comprehensive income for the year	-	-	-	96,651	409,020	505,671
Loss on disposal of investment securities carried at FVTOCI	-	-	-	(2,072)	(1,231)	(3,303)
Dividend paid (Note 25)	-	-	-	-	(184,800)	(184,800)
Balance at 31 December 2018	**1,848,000**	**1,019,266**	**6,440**	**126,447**	**1,463,200**	**4,463,353**

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

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

	2018 **AED '000**	2017 AED '000
Cash flows from operating activities		
Profit for the year	**409,020**	369,755
Adjustments for:		
Provision for impairment	**102,931**	21,011
Depreciation of property and equipment	**9,428**	11,752
Impairment of inventory	**9,385**	-
Increase in fair value of investment in securities	**(4,014)**	(1,665)
Discount amortised on investment securities	**(97)**	(111)
(Gain)/loss on disposal of investment securities	**(14,842)**	63
Gain on disposal of inventory	**-**	(395)
Dividend income	**(43,407)**	(37,728)
Loss/(gain) on disposal of property and equipment	**24**	(177)
Share of profits from an associate	**(668)**	(774)
Operating cash flows before changes in operating assets and liabilities	**467,760**	361,731
Decrease/(increase) in certificate of deposits with original maturity greater than 3 months	**540,000**	(410,000)
Increase in statutory deposit with U.A.E. Central Bank	**(11,301)**	(52,006)
Decrease/(increase) in loans and advances	**423,659**	(673,554)
Increase in other assets	**(1,405)**	(66,991)
Proceeds from disposal of inventory	**-**	3,119
Decrease in due to other banks	**(3,478)**	(66,502)
Increase in customers' deposits	**247,391**	497,592
Decrease in other liabilities	**(17,260)**	(8,193)
Net cash generated from/(used in) operating activities	**1,645,366**	(414,804)

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

	2018 **AED ’000**	2017 AED ’000
Cash flows from investing activities		
Purchase of property and equipment	**(8,632)**	(12,420)
Proceeds from disposal of property and equipment	**55**	419
Purchase of investment securities	**(52,557)**	(680)
Proceeds from maturity and disposal of investment securities	**129,454**	46,928
Dividend received from investment securities	**43,407**	37,728
Dividend received from investment in an associate	**693**	881
Net cash generated from investing activities	**112,420**	72,856
Cash flows from financing activities		
Dividend paid	**(184,800)**	(184,800)
Net cash used in financing activities	**(184,800)**	(184,800)
Net increase/(decrease) in cash and cash equivalents	**1,572,986**	(526,748)
Cash and cash equivalents at the beginning of the year	**1,552,564**	2,079,312
Cash and cash equivalents at the end of the year (see Note 27)	**3,125,550**	1,552,564

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

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

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 Group is engaged in providing retail and corporate banking services through a network of 13 branches in U.A.E.

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

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

2.1 New and revised IFRS applied with material effect on the consolidated financial statements

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

As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures. Any adjustments to carrying amount of financial assets and liabilities at the date of transitions were recognized in opening retained earnings and other reserves of the current year.

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

Set out below are the disclosures relating to the impact of IFRS 9 on the Group. Further details of the specific IFRS 9 policies applied during the year are described in more details in Note 3.

The following table reconciles the original measurement categories and carrying amounts in accordance with IAS 39 and the new measurement categories with those under IFRS 9 for the Group's financial assets as at 1 January 2018:

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

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

2.1 New and revised IFRS applied with material effect on the consolidated financial statements (continued)

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount AED'000	Impact of IFRS 9 Re-measurement AED'000	Impact of IFRS 9 Re-classification AED'000	New carrying amount AED'000
Financial assets and liabilities						
On balance sheet						
Cash and balances with the U.A.E. Central Bank	Loans and receivables	Amortised cost	**2,042,785**	**-**	-	**2,042,785**
Due from other banks	Loans and receivables	Amortised cost	**1,080,246**	**(3,477)**	-	**1,076,769**
Loans and advances	Loans and receivables	Amortised cost	**9,461,437**	**(9,935)**	-	**9,451,502**
Investment securities - debt	Held-to-maturity	Amortised cost	**429,578**	**(2,358)**	-	**427,220**
Investment securities - equity	Available-for-sale	FVTOCI	**668,101**	**-**	-	**668,101**
Investment securities - equity	Held-for-trading	FVTPL	**3,497**	**-**	-	**3,497**
Customer acceptances	Loans and receivables	Amortised cost	**220,244**	**(921)**	-	**219,323**
Other liabilities	Amortised cost	Amortised cost	**(214,628)**	**(11,138)**	-	**(225,766)**
			13,691,260	**(27,829)**	**-**	**13,663,431**

There were no changes to the classification and measurement of financial liabilities other than those disclosed above.

Other liabilities includes provision for expected credit loss for off-balance sheet items.

The impact from the adoption of IFRS 9 as at 1 January 2018 has been to decrease retained earnings by AED 22.83 million:

	Retained earnings AED'000
Closing balance under IAS 39 (31 December 2017)	**1,263,040**
Impact on recognition of expected credit losses	
Due from other banks	**(3,477)**
Loans and advances	**(9,935)**
Investment securities	**(2,358)**
Customer acceptances	**(921)**
Commitments and contingencies	**(11,138)**
	(27,829)
Impact of previously impaired equity investments transferred to cumulative change in fair value reserve	**5,000**
Opening balance under IFRS 9 on date of initial application of 1 January 2018	**1,240,211**

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

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

2.1 New and revised IFRS applied with material effect on the consolidated financial statements (continued)

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening Expected Credit Losses (ECLs) allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017 AED'000	Re-measurement AED'000	1 January 2018 AED'000
Due from other banks	-	3,477	3,477
Loans and advances	307,807	9,935	317,742
Investment securities	-	2,358	2,358
Customer acceptances	-	921	921
Commitments and contingencies	-	11,138	11,138
	307,807	27,829	335,636

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

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these consolidated financial statements. The application of these revised IFRS 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.

- Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1 *First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures (2011).*
- *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.
- Amendments to IFRS 2 *Share-based Payment* regarding classification and measurement of share based payment transactions.
- Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contracts standard.
- 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.

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

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

- IFRS 15 *Revenue from Contracts with Customers*

  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 six 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.

2.3 New and revised IFRS in issue but not yet effective

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

New and revised IFRS	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

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

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

2.3 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRS	Effective for annual periods beginning on or after
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 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019
Amendments to IAS 19 *Employee Benefits* regarding plan amendments, curtailments or settlements.	1 January 2019
Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting estimates and Errors* regarding the definition of material.	1 January 2020
Amendments to IFRS 3 *Business Combinations* to clarify the definition of a business	1 January 2020

The International Accounting Standards Board (IASB) has published its revised 'Conceptual Framework for Financial Reporting'. Included are revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure.

Together with the revised Conceptual Framework, the IASB has also issued amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.

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

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

2.3 New and revised IFRSs in issue but not yet effective (continued)

New and revised IFRS	**Effective for annual periods beginning on or after**
IFRS 17 *Insurance Contracts*	1 January 2022
IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.	
Amendments to IFRS 10 *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. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and Central Bank of UAE requirements as related to the impairment of loans and advances measured at amortised cost and calculation of the capital adequacy ratio.

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 Group are expressed in Arab Emirates Dirhams (in thousands), which is the functional currency of the Group, and the presentation currency for the consolidated financial statements. The principal accounting policies adopted are set out below.

The Group 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).

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

3. Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

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 subsidiary 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 2018 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 Group beneficially through nominee arrangements.

3. Significant accounting policies (continued)

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 Group'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 IFRS 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 Bank, liabilities incurred by the Bank to the former owners of the acquiree and the equity interests issued by the Bank 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.

3. Significant accounting policies (continued)

3.5 Business combinations (continued)

When a business combination is achieved in stages, the Bank's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Bank 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 Bank 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 Significant accounting policies introduced on adoption of IFRS 9

Classification of financial assets and financial liabilities

Financial assets

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value Through Other Comprehensive Income (FVTOCI) or Fair Value Through Profit and Loss (FVTPL). A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

3. Significant accounting policies (continued)

3.6 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Classification of financial assets and financial liabilities (continued)

Financial liabilities

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

- Financial liabilities at fair value through profit or loss: the classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and
- Financial guarantee contracts and loan commitments.

Derecognition of financial liabilities

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

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

3. Significant accounting policies (continued)

3.6 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Classification of financial assets and financial liabilities (continued)

Business model assessment (continued)

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ’Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g. periodical reset of interest rate.

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group’s financial assets. During the current period and previous accounting period, there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made.

Derecognition

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss account on derecognition of such securities.

3. Significant accounting policies (continued)

3.6 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Measurement of financial assets and financial liabilities

Investment securities

The investment securities' caption in the statement of consolidated financial position includes:

- Quoted debt instruments measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- Equity investment securities measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss; and
- Equity securities designated as at FVTOCI.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Financial liabilities

All financial liabilities are measured at amortised cost unless designated at FVTPL.

Impairment

Measurement of ECL

The Group recognises loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at FVTPL:

- Deposits and balances and due from banks;
- Debt investment securities carried at amortised cost;
- Loans and advances to customers;
- Customer acceptances and other financial assets;
- Loan commitments; and
- Financial guarantees and contracts

No impairment loss is recognised on equity investments.

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

3. Significant accounting policies (continued)

3.6 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Impairment (continued)

***Measurement of ECL* (continued)**

With the exception of purchased or originated credit impaired (POCI) financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis (for Wholesale portfolio), or on a collective basis for portfolios of loans that share similar economic risk characteristics (for Retail portfolio). The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

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

3. Significant accounting policies (continued)

3.6 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Impairment (continued)

Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life. An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component;(b) the contractual ability to demand repayment and cancel the undrawn commitment is present; and (c) the exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle. Products in scope of this exemption include credit cards, overdraft balances and certain revolving lines of credit. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

Credit-impaired financial assets

A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as timing of coupon payments, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower’s financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more. However, the cases where the impairment is not recognised for assets beyond 90 days overdue are supported by reasonable information.

3. Significant accounting policies (continued)

3.6 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Impairment (continued)

Significant increase in credit risk

The Group monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL. The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Group monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate financing, forward-looking information includes the future prospects of the macroeconomic indicators obtained from regulatory guidelines, economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, financing forward looking information includes the same economic forecasts as corporate financing with additional forecasts of local economic indicators.

The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The Group considers the credit risk upon initial recognition of asset and whether there has been a significant increase in it on an ongoing basis throughout each reporting period. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the customer;
- significant changes in the expected performance and behavior of the customer, including changes in the payment status of customers in the group and changes in the operating results of the customer; and

3. Significant accounting policies (continued)

3.6 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Impairment (continued)

***Significant increase in credit risk* (continued)**

- Macroeconomic information: in its models, the Group relies on a broad range of forward looking information as economic inputs along with various transformations of the same. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis.

However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate financing there is particular focus on assets that are included on a ‘watch list’ given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

For retail financing, when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Restructured or Modified financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

3. Significant accounting policies (continued)

3.6 Significant accounting policies introduced on adoption of IFRS 9 (continued)

Impairment (continued)

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions in the consolidated statement of financial position and the remeasurement is presented in other revenue.

The Group has not designated any financial guarantee contracts as at FVTPL.

3.7 Accounting policies for financial instruments as per IAS 39

The accounting policies as per IAS 39 applicable before 1 January 2018 to the comparative figures of financial instruments is disclosed below.

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 Group 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.

3. Significant accounting policies (continued)

3.7 Accounting policies for financial instruments as per IAS 39 (continued)

Financial assets (continued)

Impairment of loans and advances (continued)

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 Group 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 Group.

Performing loans

The estimated impairment is calculated by the Group'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 Group has set out its re-ageing policy as part of the Credit Risk Policy. The Group 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 Group 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.

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

3. Significant accounting policies (continued)

3.7 Accounting policies for financial instruments as per IAS 39 (continued)

Financial assets (continued)

Investment securities (continued)

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 Group's management has the positive intention and ability to hold to maturity. Where the Group 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 Group 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 Group establishes fair value by using valuation techniques.

3. Significant accounting policies (continued)

3.7 Accounting policies for financial instruments as per IAS 39 (continued)

Financial assets (continued)

Subsequent measurement (continued)

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 Group'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 Group 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 Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

3. Significant accounting policies (continued)

3.7 Accounting policies for financial instruments as per IAS 39 (continued)

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 Group 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 Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3.8 Property and equipment

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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
Computer 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. Significant accounting policies (continued)

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 Group 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 Group 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 Group and the expected basic salary at the date of leaving the service.

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

3. Significant accounting policies (continued)

3.12 Provisions

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

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

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

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 Group are measured in UAE Dirhams which is the functional currency of the primary economic environment in which the Group 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.

Income from Islamic financing products

The Group’s policy for recognition of income from Islamic financing products is described in Note 3.21.

3. Significant accounting policies (continued)

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 affected.

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 Group 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 Group sells to a customer a commodity or an asset, which the Group 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 Group and the customer whereby the customer provides the funds and the Group 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.

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

3. Significant accounting policies (continued)

3.21 Islamic financing products (continued)

Definitions **(continued)**

Wakala (Investment agency)

An agreement whereby the customer appoints the Group 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 Group 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 Group. 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 Group 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.

4. Critical accounting estimates and judgements (continued)

Critical accounting estimates and judgments in applying the Group's accounting policies introduced on adoption of IFRS 9

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. A significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. product type of retail facilities). The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

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

4. Critical accounting estimates and judgements (continued)

Critical accounting estimates and judgments in applying the Group's accounting policies introduced on adoption of IFRS 9 (continued)

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario.

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Critical accounting estimates and judgments applied under IAS 39 (applicable before 1 January 2018)

Impairment losses on loans and advances

The Group'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 Group 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

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

4. Critical accounting estimates and judgements (continued)

Critical accounting estimates and judgments applied under IAS 39 (applicable before 1 January 2018) (continued)

Impairment losses on loans and advances (continued)

i) Individually assessed loans (continued)

The Group'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.

ii) 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 Group'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 Group 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 Group 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 Group 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 Group evaluates its intention and ability to hold such investments to maturity. If the Group 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.

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

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

	2018 AED'000	2017 AED'000
Balances with the U.A.E. Central Bank:		
Current account	**321,153**	165,473
Certificates of deposits	**620,000**	1,310,000
Statutory deposits	**471,768**	460,467
	1,412,921	1,935,940
Cash in hand	**108,100**	106,845
	1,521,021	2,042,785

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

6. Due from other banks

	2018 AED'000	2017 AED'000
Term deposits	**2,612,648**	1,062,844
Demand deposits	**33,649**	17,402
	2,646,297	1,080,246
Provision for expected credit loss	**(3,477)**	-
	2,642,820	1,080,246

7. Loans and advances

	2018 AED'000	2017 AED'000
Loans	**7,386,097**	7,790,011
Overdrafts	**1,386,530**	1,325,538
Islamic financing products	**332,547**	381,969
Loans against trust receipts	**166,253**	186,601
Other	**71,624**	85,125
Total loans and advances	**9,343,051**	9,769,244
Provision for impairment	**(418,139)**	(307,807)
Net loans and advances	**8,924,912**	9,461,437

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

7. Loans and advances (continued)

	2018 AED'000	2017 AED'000
By economic sector		
Wholesale and retail trade	**1,285,512**	1,319,540
Real estate and construction	**3,344,685**	3,492,131
Personal loans and other	**706,542**	793,869
Manufacturing	**459,068**	379,026
Agriculture and allied activities	**1,370**	1,520
Transport and communication	**273,096**	227,455
Financial institutions	**645,836**	1,147,981
Services and other	**2,626,942**	2,407,722
	9,343,051	9,769,244
Movement in provision for impairment		
Balance at the beginning of the year	**307,807**	382,185
Impact of adoption of IFRS 9 (Note 2.1)	**9,935**	-
Impairment allowance for the year	**102,931**	21,011
Write offs during the year	**(2,534)**	(95,389)
Balance at the end of the year	**418,139**	307,807

Net charge for provision for impairment:

	2018 AED'000	2017 AED'000
Provision made during the year	**124,731**	106,061
Provision released during the year	**(21,800)**	(85,050)
	102,931	21,011

The non-performing loans as at 31 December 2018 amounted to AED 686.66 million (2017: AED 657.57 million). Provisions for impairment in relation to such loans amounted to AED 235.56 million as at 31 December 2018 (2017: AED 135.74 million) (see Note 31).

8. Investment securities

Investment securities comprise the following:

	2018 AED '000	2017 AED '000
Securities at FVTPL		
Quoted equity securities	**24,255**	-
Discretionary funds managed by third parties – quoted equity securities	**231**	-
Securities at FVTPL – held for trading		
Quoted equity securities	**-**	3,251
Discretionary funds managed by third parties – quoted equity securities	**-**	246
	24,486	3,497
Securities at FVTOCI		
Quoted equity securities	**755,132**	-
Unquoted equity securities	**747**	-
Securities available-for-sale		
Quoted equity securities	**-**	661,480
Unquoted equity securities	**-**	6,621
	755,879	668,101
Securities at amortised cost		
Quoted debt instruments	**356,215**	-
Securities held-to-maturity		
Quoted debt instruments	**-**	429,578
Total investment securities	**1,136,580**	1,101,176
Provision for expected credit loss	**(2,358)**	-
Net investment securities	**1,134,222**	1,101,176

The Group has no exposures of any kind with Abraaj Capital.

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

8. Investment securities (continued)

	2018 **AED '000**	2017 AED '000
Movement in investment securities:		
Balance at 1 January	**1,101,176**	1,143,186
Purchase of investment securities	**52,557**	680
Disposal and maturity of investment securities	**(114,612)**	(46,972)
Net fair value gain on investment securities at FVTPL	**4,014**	-
Net fair value gain on investment securities at FVTPL – held for trading	**-**	1,575
Net discount amortised on investment securities at amortised cost	**97**	-
Net discount amortised on investment securities held-to-maturity	**-**	111
Foreign exchange revaluation	**-**	90
Net fair value gain on investment securities at FVTOCI	**96,651**	-
Net fair value gain on investment securities available-for-sale directly recognized in equity	**-**	2,506
Loss on disposal of investment securities carried at FVTOCI	**(3,303)**	-
Balance at 31 December	**1,136,580**	1,101,176

9. Investment in an associate

The detail of associate is as follows:

Name of the associate	**Principal activity**	**Place of incorporation**	**Ownership (%)**	**2018 AED'000**	2017 AED'000
Tasareeh Business Men Center LLC	Providing visa application and renewal services, other business men services.	Dubai, UAE	30%	**1,625**	1,650

Movement in the investment in an associate for the year:

	2018 **AED '000**	2017 AED '000
Balance at 1 January	**1,650**	1,757
Share of profits from an associate	**668**	774
Dividend received from an associate	**(693)**	(881)
Balance at 31 December	**1,625**	1,650

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

9. Investment in an associate (continued)

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

	2018 **AED '000**	2017 AED '000
Total assets	**8,081**	8,181
Total liabilities	**(2,664)**	(2,681)
Net assets	**5,417**	5,500
Group's share of associate's net assets	**1,625**	1,650
Total revenue	**19,921**	19,241
Net profit for the year	**2,227**	2,580
Share of associate's net profit for the year	**668**	774

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

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 2016	108,223	102,447	5,903	7,723	1,127	9,274	234,697
Additions	68	2,308	25	35	265	9,719	12,420
Disposals	-	(1,232)	(1)	(731)	-	-	(1,964)
Transfers	-	1,004	-	418	-	(1,422)	-
31 December 2017	108,291	104,527	5,927	7,445	1,392	17,571	245,153
Additions	317	2,251	62	196	-	5,806	8,632
Disposals	-	(1,072)	(106)	(497)	(259)	(76)	(2, 010)
Transfers	214	5,317	91	963	-	(6,585)	-
31 December 2018	**108,822**	**111,023**	**5,974**	**8,107**	**1,133**	**16,716**	**251,775**
Accumulated depreciation							
31 December 2016	65,292	88,599	5,004	6,784	894	-	166,573
Charge for the year	4,657	6,352	245	408	90	-	11,752
Eliminated on disposals	-	(1,162)	(1)	(559)	-	-	(1,722)
31 December 2017	69,949	93,789	5,248	6,633	984	-	176,603
Charge for the year	2,686	5,845	251	512	134	-	9,428
Eliminated on disposals	-	(1,071)	(106)	(495)	(259)	-	(1,931)
31 December 2018	**72,635**	**98,563**	**5,393**	**6,650**	**859**	**-**	**184,100**
Carrying amount							
31 December 2018	**36,187**	**12,460**	**581**	**1,457**	**274**	**16,716**	**67,675**
31 December 2017	38,342	10,738	679	812	408	17,571	68,550

Land and buildings include land costing AED 22.9 million (2017: AED 22.9 million) which is not depreciated.

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

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

11. Other assets

	2018 **AED '000**	2017 AED '000
Inventory*	**62,092**	71,477
Interest receivable	**37,120**	38,468
Prepayments and deposits	**33,746**	32,049
Other	**5,509**	4,453
	138,467	146,447

*Inventory represents properties acquired in settlement of debt. During 2018, the Group has recorded an impairment on its inventory amounting to AED 9.4 million (Note 20).

12. Due to other banks

	2018 **AED '000**	2017 AED '000
Demand deposits	**20**	3,498

By geographical area

	2018 **AED '000**	2017 AED '000
Outside U.A.E.	**20**	3,498

13. Customers' deposits

	2018 **AED '000**	2017 AED '000
Time deposits	**7,383,978**	7,071,552
Savings deposits	**180,122**	217,162
Current accounts	**1,980,842**	2,072,877
Margin deposits	**61,403**	65,080
Islamic customers' deposits	**151,597**	83,880
	9,757,942	9,510,551

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

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

14. Other liabilities

	2018 AED '000	2017 AED '000
Accounts payable	**26,431**	35,508
Interest payable	**42,237**	32,712
Provision for employees' end of service benefits	**21,001**	30,268
Other staff benefits	**637**	1,302
Dividend payable	**11,596**	11,596
Provision for expected credit loss on commitments and contingencies	**11,138**	-
Other	**95,466**	103,242
	208,506	214,628

Movement in provision for employees' end of service benefits:

	2018 AED '000	2017 AED '000
Balance at 1 January	**30,268**	29,266
Provision made during the year (Note 23)	**1,656**	2,572
Payments made during the year	**(10,923)**	(1,570)
Balance at 31 December	**21,001**	30,268

15. Share capital

	2018 AED '000	2017 AED '000
Issued and fully paid:		
1,848 million ordinary shares of AED 1 each	**1,848,000**	1,848,000

16. Statutory reserve

In accordance with the UAE Federal Law No (2) of 2015, as amended, and the U.A.E. Decretal Law No. (14) of 2018, 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 Group. This reserve is not available for distribution.

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

17. General reserve

The Group 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 Group at an Ordinary General Meeting.

18. Commitments and contingencies

a) The contractual amounts of the Group's commitments and contingencies are as follows:

	2018 AED '000	2017 AED '000
Guarantees	**5,294,248**	5,910,964
Letters of credit	**101,287**	112,398
Commitments to extend credit	**1,296,726**	1,727,944
Other	**31,821**	25,212
At 31 December	**6,724,082**	7,776,518

	2018 AED '000	2017 AED '000
By geographical area		
Within the U.A.E.	**6,668,834**	7,713,443
Outside the U.A.E.	**55,248**	63,075
	6,724,082	7,776,518

Guarantees, which represent irrevocable assurances that the Group 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 Group on behalf of a customer authorizing a third party to draw drafts on the Group, 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 Group 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 Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments.

The provision for expected credit loss against the off-balance sheet items disclosed above amounting to AED 11.14 million is classified under other liabilities (Note 14).

18. Commitments and contingencies (continued)

b) Capital commitments

At 31 December 2018, the Group has capital commitments of AED 4.05 million (2017: AED 2.14 million).

19. Interest income and expense

	2018 AED '000	2017 AED '000
Interest income		
Loans and receivables		
Loans and advances	**490,608**	430,910
Deposits with the U.A.E. Central Bank	**14,923**	10,041
Other banks	**39,594**	16,244
Investment in debt securities	**14,602**	17,351
	559,727	474,546

	2018 AED '000	2017 AED '000
Interest expense		
Financial liabilities at amortised cost		
Customers' deposits	**82,162**	63,826
Borrowings from other banks	**913**	598
	83,075	64,424

20. Other operating income

	2018 AED '000	2017 AED '000
Rental income	**8,108**	9,012
Foreign exchange income – net	**2,834**	2,977
Impairment of inventory (Note 11)	**(9,385)**	-
Gain on disposal of inventory	**-**	395
Other	**32,685**	15,395
	34,242	27,779

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

21. Operating expenses

	2018 AED '000	2017 AED '000
Staff costs (Note 23)	**80,120**	88,417
Occupancy costs	**23,106**	26,473
Depreciation (Note 10)	**9,428**	11,752
Staff benefits (Note 23)	**6,854**	8,806
Fees and commission expenses	**8,784**	1,430
Other*	**23,222**	44,961
	151,514	181,839

* Includes an amount of AED 0.25 million (2017: AED 0.24 million) paid towards social contribution (including donation and charity) during the year.

22. Investment gains

	2018 AED '000	2017 AED '000
Dividend income:		
a) Investment securities at FVTOCI	**43,212**	37,491
b) Investment securities at fair value through profit and loss	**195**	237
Fair value gain on investment securities at fair value through profit and loss	**4,014**	1,575
Foreign exchange revaluation	**-**	90
Net discount amortised on debt securities	**97**	111
Profit on disposal of investments:		
a) Investment securities at FVTOCI	**-**	(19)
b) Investment securities at fair value through profit and loss	**14,842**	(44)
Other investment income	**-**	123
	62,360	39,564

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

23. Staff costs

	2018 AED '000	2017 AED '000
Staff costs		
Salaries and allowances	**77,245**	87,168
Staff training	**1,107**	913
Housing and medical	**1,768**	336
	80,120	88,417

	2018 AED '000	2017 AED '000
Staff benefits		
Pension	**3,436**	3,849
End of service benefits	**1,656**	2,572
Other	**1,762**	2,385
	6,854	8,806

24. 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.

	2018	2017
Profit for the year in AED	**409,020,000**	369,755,000
Average number of shares in issue	**1,848,000,000**	1,848,000,000
Basic earnings per share in AED	**0.22**	0.20

There were no potentially dilutive shares as at 31 December 2018 and 2017.

25. Dividend per share

Payment of cash dividend of 11% of the Share Capital amounting to AED 203.28 million for the year ending 31 December 2018 is subject to approval of the UAE Central Bank (2017: cash dividend amounting to AED 184.8 million).

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

26. Related party transactions

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

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

	2018 **AED'000**	2017 AED'000
Interest income	**16,099**	20,085
Interest expense	**40,194**	35,736
Remuneration of key management personnel	**4,946**	6,148
Other income	**621**	1,365
Directors' fees	**3,000**	3,000

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:

	2018 **AED'000**	2017 AED'000
Loans and advances	**391,508**	414,702
Customer deposits	**1,873,234**	1,586,872
Irrevocable commitments and contingent liabilities	**540,919**	831,549

27. Cash and cash equivalents

	2018 **AED '000**	2017 AED '000
Cash and balances with the U.A.E. Central bank (Note 5)	**1,521,021**	2,042,785
Term and demand deposits with other banks (Note 6)	**2,646,297**	1,080,246
Statutory deposits (Note 5)	**(471,768)**	(460,467)
Certificates of deposits with original maturity over 3 months	**(570,000)**	(1,110,000)
	3,125,550	1,552,564

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

28. Business segments

The Group 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

	Retail and corporate banking AED'000	Treasury and investments AED'000	Unallocated AED '000	Total AED'000
31 December 2018				
Gross income	481,922	86,869	31,646	600,437
Segment result	325,065	147,450	(63,495)	409,020
Segment assets	9,060,629	5,536,028	68,191	14,664,848
Segment liabilities	9,943,027	246,872	11,596	10,201,495
31 December 2017				
Gross income	441,953	68,985	21,329	532,267
Segment result	362,534	97,302	(90,081)	369,755
Segment assets	9,109,696	4,944,235	68,604	14,122,535
Segment liabilities	9,731,244	206,081	11,596	9,948,921

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

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

Assets **31 December 2018**	**At amortised cost AED'000**	**At FVTPL AED'000**	**At FVTOCI AED'000**	**Non-financial instruments AED'000**	**Total AED'000**
Cash and balances with the U.A.E. Central Bank	1,521,021	-	-	-	1,521,021
Due from other banks	2,642,820	-	-	-	2,642,820
Loans and advances	8,924,912	-	-	-	8,924,912
Investment securities	353,857	24,486	755,879	-	1,134,222
Customers' acceptances	234,106	-	-	-	234,106
Investment in an associate	-	-	-	1,625	1,625
Property and equipment	-	-	-	67,675	67,675
Other assets	37,120	-	-	101,347	138,467
Total assets	13,713,836	24,486	755,879	170,647	14,664,848

31 December 2017	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	2,042,785	-	-	-	-	2,042,785
Due from other banks	1,080,246	-	-	-	-	1,080,246
Loans and advances	9,461,437	-	-	-	-	9,461,437
Investment securities	-	429,578	3,497	668,101	-	1,101,176
Customers' acceptances	220,244	-	-	-	-	220,244
Investment in an associate	-	-	-	-	1,650	1,650
Property and equipment	-	-	-	-	68,550	68,550
Other assets	38,468	-	-	-	107,979	146,447
Total assets	12,843,180	429,578	3,497	668,101	178,179	14,122,535

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

29. Classification and fair value of financial and non-financial instruments (continued)

Liabilities	At amortised cost AED'000	Non-financial instruments AED'000	Total AED'000
31 December 2018			
Due to other banks	20	-	20
Customers' deposits	9,757,942	-	9,757,942
Customers' acceptances	235,027	-	235,027
Other liabilities	186,868	21,638	208,506
Total liabilities	10,179,857	21,638	10,201,495
31 December 2017			
Due to other banks	3,498	-	3,498
Customers' deposits	9,510,551	-	9,510,551
Customers' acceptances	220,244	-	220,244
Other liabilities	183,058	31,570	214,628
Total liabilities	9,917,351	31,570	9,948,921

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 Group 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).

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

29. Classification and fair value of financial and non-financial instruments (continued)

Fair value measurements (continued)

Fair value of financial instruments measured at amortised cost

The fair value of the quoted debt instruments at amortised cost at 31 December 2018 amounted to AED 361.73 million (31 December 2017: quoted debt instruments at held-to-maturity amounted to AED 443.59 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 2017.

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

Some of the Group'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**					**Relationship of**
	31 December 2018 AED '000	31 December 2017 AED '000	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**unobservable inputs to fair value**
Financial assets at FVTPL						
Quoted equity securities	**24,486**	-	Level 1	Quoted prices in an active market.	None	N/A
Financial assets at FVTPL – held for trading						
Quoted equity securities	-	3,497	Level 1	Quoted prices in an active market.	None	N/A
Financial assets at FVTOCI						
Quoted equity securities	**755,132**	-	Level 1	Quoted prices in an active market.	None	N/A
Unquoted equity securities - net	**747**	-	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.
Available-for-sale financial assets						
Quoted equity securities	-	661,480	Level 1	Quoted prices in an active market.	None	N/A
Unquoted equity securities - net	-	6,621	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.

29. Classification and fair value of financial and non-financial instruments (continued)

Fair value measurements (continued)

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 disposals.

30. Financial risk management

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

Credit risk

The Group assumes credit risk as part of its lending operations, which is identified as the risk that counterparty will cause a financial loss for the Group 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 III. 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 Group's exposure to credit risk.

Credit Risk Mitigation

Collateral - It is a common practice to obtain collateral securities to safeguard the interest of the Group 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 Group 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.

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

30. Financial risk management (continued)

Market risk

Market risk for the Group 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 Group's earnings and capital to risk.

The market risk department of the Group 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 Group's internal market risk policies and strategic business directions.

Liquidity risk

Liquidity risk is the risk that the Group 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 Group's ALCO has put in place the policies to manage the liquidity risk and monitor the position regularly. Note 32 summarizes the Group'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 Group 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 Group manages its interest rate sensitivity position based on anticipated and actual interest rate movements, in order to maximise net interest income ("NII"). The Group 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 Group. It is controlled through the limit prescribed for the same. Note 33 summarizes the Group's exposure to interest rate risk.

During the year ended 31 December 2018, the effective interest rate on due from other banks was 2.45% (2017: 1.48%), certificate of deposits with Central Bank was 1.54% (2017: 0.98%), loans and advances was 5.56% (2017: 5.31%), investment securities at amortised cost was 3.88% (2017: investment securities at held-to-maturity was 4.08%), customers' deposits was 0.86% (2017: 0.69%) and due to other banks was 1.63% (2017: 1.17%).

Currency risk

The Group 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 34 summarizes the Group's exposure to foreign currency exchange risk.

30. Financial risk management (continued)

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 Group. 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 Group 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 Group 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.

31. Credit risk

Significant increase in credit risk

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL.

Internal credit risk ratings

To assess the creditworthiness of the borrowers, the Group has in place an internal credit risk rating system. The Group's credit risk grading framework comprises 15 categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Changes in business, financial and economic conditions;
- Information obtained by periodic review of customer files including audited financial statements review

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

31. Credit risk (continued)

Significant increase in credit risk (continued)

Internal credit risk ratings (continued)

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The table below provides a mapping of the Group's internal credit risk grades.

Group's credit risk	Grade	Description
1	AAA	Substantially Risk Free
2	AA+	Low Risk
3	AA	Minimal Risk
4	AA-	Modest Risk
5	A+	Average Risk
6	A	Above Average Risk
7	A-	Medium Risk
8	BBB	Medium to High Risk
9	BB+	Moderately High Risk
10	BB	Significant Risk
11	B+	Significantly High Risk
12	B	Watchlist
13	C	Substandard
14	D	Doubtful
15	E	Loss

The Group analyses all data collected using statistical models and estimates the lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, Real Estate prices, oil prices, occupancy rates etc. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group engage experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

31. Credit risk (continued)

Significant increase in credit risk (continued)

Incorporation of forward-looking information (continued)

Predicted relationships between the macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 7 years except for credit cards where 5 years of historical data was used.

Measurement of ECL

The key inputs used for measuring ECL are:

• Probability of default (PD);
• Loss given default (LGD); and
• Exposure at default (EAD).

These elements are derived from internally developed statistical models based on historical data and data available from reliable sources. They are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors.

LGD is an estimate of the magnitude of loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross- collateralization and seniority of claim, cost of realization of collateral. LGD models for unsecured assets consider time of recovery & recovery rates. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD represents the expected exposure at a future default date. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation and payment of principal and interest. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on credit conversion factors.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis where the financial instruments are grouped based on product type risk characteristics.

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

31. Credit risk (continued)

Significant increase in credit risk (continued)

Credit quality

An analysis of the Group's credit risk exposure per class of financial asset and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Due from other banks

	2018			
	Stage 1	**Stage 2**	**Stage 3**	
	12 months ECL	**Life time ECL**	**Life time ECL**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Performing (Grades 1-12)	2,646,297	-	-	**2,646,297**
Total gross carrying amount	2,646,297	-	-	**2,646,297**
Expected credit loss	(3,477)	-	-	**(3,477)**
Carrying amount	**2,642,820**	**-**	**-**	**2,642,820**

Loans and advances

	2018			
	Stage 1	**Stage 2**	**Stage 3**	
	12 months ECL	**Life time ECL**	**Life time ECL**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Performing (Grades 1-12)	7,640,858	1,015,533	-	**8,656,391**
Non Performing (Grades 13-15)	-	-	686,660	**686,660**
Total gross carrying amount	7,640,858	1,015,533	686,660	**9,343,051**
Expected credit loss	(112,860)	(69,716)	(235,563)	**(418,139)**
Carrying amount	**7,527,998**	**945,817**	**451,097**	**8,924,912**

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

31. Credit risk (continued)

Significant increase in credit risk (continued)

Credit quality (continued)

Investment securities

	2018			
	Stage 1	Stage 2	Stage 3	
	12 months ECL AED'000	Life time ECL AED'000	Life time ECL AED'000	Total AED'000
Performing (Grades 1-12)	356,215	-	-	**356,215**
Total gross carrying amount	356,215	-	-	**356,215**
Expected credit loss	(2,358)	-	-	**(2,358)**
Carrying amount	**353,857**	**-**	**-**	**353,857**

Customer acceptances

	2018			
	Stage 1	Stage 2	Stage 3	
	12 months ECL AED'000	Life time ECL AED'000	Life time ECL AED'000	Total AED'000
Performing (Grades 1-12)	228,569	6,458	-	**235,027**
Total gross carrying amount	228,569	6,458	-	**235,027**
Expected credit loss	(918)	(3)	-	**(921)**
Carrying amount	**227,651**	**6,455**	**-**	**234,106**

The estimated credit loss on commitments and contingencies, which included guarantees and letters of credit, amounted to AED 10.98 Million for Stage 1 and AED 0.16 million for Stage 2 balances.

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

31. Credit risk (continued)

Significant increase in credit risk (continued)

Credit quality (continued)

A summary of the movement in provision for expected credit loss on financial instruments by category are as follows:

	1 January 2018 as restated AED 000	Net charge during the period AED 000	Other movement during the period AED 000	31 December 2018 AED 000
Due from other banks	**3,477**	**-**	**-**	**3,477**
Loans and advances	**317,742**	**102,931**	**(2,534)**	**418,139**
Investment securities	**2,358**	**-**	**-**	**2,358**
Customer acceptances	**921**	**-**	**-**	**921**
Commitments and Contingencies	**11,138**	**-**	**-**	**11,138**
Total	**335,636**	**102,931**	**(2,534)**	**436,033**

Provision for impairment of loans and advances – 31 December 2018	**Stage 1 12-month ECL AED 000**	**Stage 2 Lifetime ECL AED 000**	**Stage 3 Lifetime ECL AED 000**	**Total AED 000**
Balance at 31 December 2017	114,895	57,177	135,735	**307,807**
Restatement as per IFRS 9	6,634	3,301	-	**9,935**
Balance as at 1 January 2018 (restated)	121,529	60,478	135,735	**317,742**
Allowance for impairment charged/(transferred)	(8,669)	9,238	124,162	**124,731**
Write back/recoveries	-	-	(21,800)	**(21,800)**
Written off	-	-	(2,534)	**(2,534)**
Balance at 31 December 2018	**112,860**	**69,716**	**235,563**	**418,139**

Provision for impairment of loans and advances – 31 December 2017	Against specific loans and advances AED'000	Against risks inherent in the portfolio AED'000	Total AED'000
At 1 January 2017	210,021	172,164	382,185
Provision made during the year	103,202	2,859	106,061
Provision released during the year	(85,050)	-	(85,050)
Written off/utilised during the year	(92,722)	(2,667)	(95,389)
Provision transferred during the year	284	(284)	-
At 31 December 2017	135,735	172,072	307,807

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

31. Credit risk (continued)

Significant increase in credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements:

	Maximum exposure	
	2018	2017
	AED'000	AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from other banks	**2,646,297**	1,080,246
Loans and advances	**9,343,051**	9,769,244
Customer acceptances	**235,027**	220,244
Investment securities	**356,215**	429,578
Other assets	**37,120**	38,468
Total	**12,617,710**	11,537,780
Credit risk exposures relating to off-balance sheet items are as follows:		
Other off balance sheet items (LCs included)	**5,395,534**	6,023,362
	18,013,244	**17,561,142**

Total collateral value is AED 15,969 million (2017: AED 14,725 million) against secured loans and advances of AED 7,480 million (2017: AED 7,066 million). The fair value of collateral on impaired loans is estimated to be AED 834 million (2017: AED 886 million).

Impairment Reserve under the Central Bank of UAE ("CBUAE")

The CBUAE issued its IFRS 9 guidance on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE (the "Guidance"). Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2018
	AED'000
Impairment Reserve : General	
General Provisions under Circular 28/2010 of CBUAE	168,864
Less: Stage 1 & Stage 2 provisions under IFRS 9	182,576
General Provision transferred to impairment reserve	**-**
Impairment Reserve : Specific	
Specific Provisions under Circular 28/2010 of CBUAE	235,563
Less: Stage 3 provisions under IFRS 9	235,563
Specific Provision transferred to impairment reserve	**-**

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

31. Credit risk (continued)

Asset quality and ageing as on 31 December 2017

	Due from other banks AED'000	Loans and advances AED '000	Investment securities AED '000
Impaired			
Substandard	-	310,964	-
Doubtful	-	346,465	-
Loss	-	142	-
	-	657,571	-
Specific allowance for impairment	-	(135,735)	-
	-	521,836	-
Amount past due but not impaired			
Past due above 60 days	-	1,107	-
Past due less than 60 days	-	53,027	-
	-	54,134	-
Neither past due nor impaired	1,080,246	9,057,539	429,578
Collective allowances for impairment	-	(172,072)	-
	1,080,246	8,885,467	429,578
Carrying amount	1,080,246	9,461,437	429,578

Geographical concentration of assets

31 December 2018

	Due from other banks AED'000	**Loans and advances AED '000**	**Investment securities AED '000**
Within U.A.E.	2,502,458	9,343,051	1,080,243
Within GCC countries	714	-	35,701
Other countries	143,125	-	20,636
	2,646,297	**9,343,051**	**1,136,580**

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

31. Credit risk (continued)

Geographical concentration of assets (continued)

31 December 2017

	Due from other banks AED'000	Loans and advances AED '000	Investment securities AED '000
Within U.A.E.	835,118	9,369,612	1,071,634
Within GCC countries	26,740	91,825	28,419
Other countries	218,388	-	1,123
	1,080,246	9,461,437	1,101,176

Rated and unrated exposure

31 December 2018

Asset classes	**On balance sheet**	**Off Balance Sheet**	**Credit Risk Mitigation (CRM)**			
	Gross outstanding AED '000	**Exposure after CCF AED '000**	**Exposure before CRM AED '000**	**CRM AED '000**	**Exposure after CRM AED '000**	**Risk Weighted Assets AED '000**
Claims on sovereigns	1,416,289	-	1,416,289	-	1,416,289	-
Claims on non-central Government public sector entities (PSEs)	83,152	25	83,177	-	83,177	53,655
Claims on banks	3,055,594	49	3,055,643	-	3,055,643	716,525
Claims on corporates	4,356,665	933,718	5,288,208	397,214	4,890,994	4,890,994
Claims included in the regulatory retail portfolio	1,170,414	2,093,211	3,263,978	2,035,107	1,228,871	1,113,394
Claims secured by commercial real estate	3,008,128	3,556	3,011,184	15,666	2,995,518	2,995,518
Past due loans	972,485	41,496	515,217	62,910	452,307	559,727
Other assets	1,064,336	-	1,060,348	-	1,060,348	927,762
Credit derivatives	-	6	6	-	6	3
Total claims	15,127,063	3,072,061	17,694,050	2,510,897	15,183,153	11,257,578
Total credit risk weighted assets						**11,257,578**

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

31. Credit risk (continued)

Rated and unrated exposure (continued)

31 December 2017

Asset classes	On Balance Sheet	Off Balance Sheet	Credit Risk Mitigation (CRM)			
	Gross outstanding AED '000	Exposure after CCF AED '000	Exposure before CRM AED '000	CRM AED '000	Exposure after CRM AED '000	Risk Weighted Assets AED '000
Claims on sovereigns	1,940,122	-	1,940,122	-	1,940,122	-
Claims on non-central Government public sector entities (PSEs)	113,419	25	113,444	-	113,444	83,948
Claims on banks	2,006,282	48	2,006,330	-	2,006,330	707,642
Claims on corporates	4,378,722	1,044,243	5,404,830	445,840	4,958,990	4,958,990
Claims included in the regulatory retail portfolio	1,336,741	2,310,878	3,643,702	2,178,032	1,465,670	1,312,402
Claims secured by commercial real estate	3,047,425	3,609	3,051,034	21,609	3,029,425	3,029,424
Past due loans	669,751	45,110	364,368	22,809	341,559	462,987
Other assets	961,746	-	957,757	-	957,757	847,415
Credit derivatives	-	6	6	-	6	3
Total claims	14,454,208	3,403,919	17,481,593	2,668,290	14,813,303	11,402,811
Total credit risk weighted assets						11,402,811

32. Liquidity risk

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

Maturity profile

Assets

31 December 2018

	Upto 1 month AED'000	1 month - 3 months 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	689,253	360,000	-	471,768	-	-	1,521,021
Due from other banks	2,642,820	-	-	-	-	-	2,642,820
Loans and advances	290,880	346,643	956,220	4,858,064	2,473,105	-	8,924,912
Investment securities	307,081	-	590,037	237,104	-	-	1,134,222
Customers' acceptances	61,095	78,639	86,634	7,738	-	-	234,106
Other financial assets	37,120	-	-	-	-	-	37,120
Non-financial assets	-	-	-	-	-	170,647	170,647
Total	**4,028,249**	**785,282**	**1,632,891**	**5,574,674**	**2,473,105**	**170,647**	**14,664,848**

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

32. Liquidity risk (continued)

Maturity profile (continued)

Assets (continued)

31 December 2017

	Upto 1 month AED'000	1 month - 3 months 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	472,318	-	1,110,000	460,467	-	-	2,042,785
Due from other banks	1,054,534	25,712	-	-	-	-	1,080,246
Loans and advances	332,107	565,262	1,187,389	4,774,353	2,602,326	-	9,461,437
Investment securities	201,480	-	470,118	356,118	73,460	-	1,101,176
Customers' acceptances	45,046	56,214	109,109	9,875	-	-	220,244
Other financial assets	38,468	-	-	-	-	-	38,468
Non-financial assets	-	-	-	-	-	178,179	178,179
Total	2,143,953	647,188	2,876,616	5,600,813	2,675,786	178,179	14,122,535

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

32. Liquidity risk (continued)

Maturity profile (continued)

Liabilities, equity and off balance sheet items

31 December 2018

	Upto 1 month AED'000	1 month - 3 months 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	20	-	-	-	-		20
Customers' deposits	1,736,798	868,878	1,925,032	5,227,058	176	-	9,757,942
Customers' acceptances	61,094	78,639	86,634	8,660	-	-	235,027
Other financial liabilities	49,839	56,621	46,163	22,740	11,505	-	186,868
Non-financial liabilities	-	-	-	-	-	21,638	21,638
Shareholders' equity	-	-	-	-	-	4,463,353	4,463,353
A. Total on-balance sheet items	**1,847,751**	**1,004,138**	**2,057,829**	**5,258,458**	**11,681**	**4,484,991**	**14,664,848**
Forward rate contracts	639	4,237	-	-	-	-	4,876
Spot / Split Sale	4,026		-	-	-	-	4,026
Guarantees	285	-	856	-	-	-	1,141
Unavailed limits	607,872	140,643	499,010	-	-	-	1,247,525
B. Total off-balance sheet items	**612,822**	**144,880**	**499,866**	**-**	**-**	**-**	**1,257,568**
Grand total [A+B]	**2,460,573**	**1,149,018**	**2,557,695**	**5,258,458**	**11,681**	**4,484,991**	**15,922,416**

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

32. Liquidity risk (continued)

Maturity profile (continued)

Liabilities, equity and off balance sheet items (continued)

31 December 2017

	Upto 1 month AED'000	1 month - 3 months 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	3,498	-	-	-	-	-	3,498
Customers' deposits	1,282,014	846,985	2,068,787	5,309,672	3,093	-	9,510,551
Customers' acceptances	45,046	56,214	109,109	9,875	-	-	220,244
Other financial liabilities	70,907	47,817	33,506	24,662	6,166	-	183,058
Non-financial liabilities	-	-	-	-	-	31,570	31,570
Shareholders' equity	-	-	-	-	-	4,173,614	4,173,614
A. Total on-balance sheet items	1,401,465	951,016	2,211,402	5,344,209	9,259	4,205,184	14,122,535
Forward rate contracts	995	1,217	-	-	-	-	2,212
Spot / Split Sale	2,118	-	-	-	-	-	2,118
Guarantees	6,929	-	20,788	-	-	-	27,717
Unavailed limits	793,049	191,213	656,175	-	-	-	1,640,437
B. Total off-balance sheet items	803,091	192,430	676,963	-	-	-	1,672,484
Grand total [A+B]	2,204,556	1,143,446	2,888,365	5,344,209	9,259	4,205,184	15,795,019

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

33. Interest rate risk

The Group 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 Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Less than 3 months AED'000	From 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
At 31 December 2018					
Financial assets					
Cash and balances with the U.A.E. Central bank	620,000	-	-	901,021	1,521,021
Due from other banks	2,612,648	-	-	30,172	2,642,820
Loans and advances	7,254,592	195,053	1,465,120	10,147	8,924,912
Investment securities	72,972	43,781	237,104	780,365	1,134,222
Customers' acceptances	-	-	-	234,106	234,106
Other financial assets	-	-	-	37,120	37,120
Total	**10,560,212**	**238,834**	**1,702,224**	**1,992,931**	**14,494,201**
Financial liabilities					
Due to other banks	-	-	-	20	20
Customers' deposits	3,143,219	1,882,051	3,495,544	1,237,128	9,757,942
Customers' acceptances	-	-	-	235,027	235,027
Other financial liabilities	-	-	-	186,868	186,868
Total	**3,143,219**	**1,882,051**	**3,495,544**	**1,659,043**	**10,179,857**
On balance sheet interest rate sensitivity gap	7,416,993	(1,643,217)	(1,793,320)	333,888	4,314,344
Off balance sheet interest rate sensitivity gap	-	-	-	(1,668,154)	(1,668,154)
Cumulative interest rate sensitivity gap	7,416,993	(1,643,217)	(1,793,320)	(1,334,266)	2,646,190

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

33. Interest rate risk (continued)

At 31 December 2017	Less than 3 months AED'000	From 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
Total financial assets	8,244,624	1,297,818	2,705,098	1,696,816	13,944,356
Total financial liabilities	1,688,025	1,388,772	612,931	6,227,623	9,917,351
On balance sheet interest rate sensitivity gap	6,556,599	(90,954)	2,092,167	(4,530,807)	4,027,005
Off balance sheet interest rate sensitivity gap	-	-	-	(1,668,154)	(1,668,154)
Cumulative interest rate sensitivity gap	6,556,599	(90,954)	2,092,167	(6,198,961)	2,358,851

Rate sensitivity analysis

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

- Net interest income would have increased by AED 115.19 million (2017: AED 110.99 million).
- Other equity reserves would have decreased by AED 22.71 million based on EVE analysis (2017: AED 304.81 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. 200 bps 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 midpoint 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.

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

34. Currency risk

Concentration of financial assets and liabilities by currency:

	AED AED'000	USD AED'000	Other AED'000	Total AED'000
At 31 December 2018				
Financial assets				
Cash and balances with the U.A.E. Central Bank	1,517,178	3,843	-	1,521,021
Due from other banks	2,406,523	215,245	21,052	2,642,820
Loans and advances	8,800,523	124,389		8,924,912
Investment securities	721,670	376,850	35,702	1,134,222
Customers' acceptances	234,106	-	-	234,106
Other financial assets	33,859	3,261	-	37,120
Total financial assets	**13,713,859**	**723,588**	**56,754**	**14,494,201**
Financial liabilities				
Due to other banks	-		20	20
Customers' deposits	9,730,877	7,925	19,140	9,757,942
Customers' acceptances	235,027	-	-	235,027
Other financial liabilities	186,859	9	-	186,868
Total financial liabilities	**10,152,763**	**7,934**	**19,160**	**10,179,857**
Net balance sheet position	**3,561,096**	**715,654**	**37,594**	**4,314,344**
Off balance sheet position	**6,671,884**	**40,902**	**11,296**	**6,724,082**
At 31 December 2017				
Total financial assets	12,492,230	1,401,847	50,279	13,944,356
Total financial liabilities	9,883,002	14,990	19,359	9,917,351
Net balance sheet position	2,609,228	1,386,857	30,920	4,027,005
Off balance sheet position	7,725,793	43,073	7,652	7,776,518

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

34. Currency risk (continued)

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 2018

	Foreign currency assets	Foreign currency liabilities	Net forward purchase/ (sale)	Net long/ (short) position	Impact on statement of income and equity
	AED'000	AED'000	AED'000	AED'000	AED'000
Pegged Currencies					
US Dollar	723,588	28,925	(3,280)	691,393	(13,828)
Saudi Riyal	35,408	-	-	35,408	(708)
Bahrain Dinar	60	-	-	60	(1)
Omani Riyal	249	-	-	249	(5)
Qatar Riyal	51	8	-	43	(1)
Other Currencies	-	-	-	-	-
Kuwait Dinar	648	-	-	648	(65)
Great British Pound	15,452	15,065	(466)	(79)	8
Euro	3,962	3,843		119	(12)
Swiss Frank	412	10	(373)	29	(3)
Japanese Yen	337	71	(266)		
Indian Rupee		20	32	12	(1)
Lankan Rupee	2	-	5	7	(1)
Jordanian Dinar	73	-	-	73	(7)
Canadian Dollar	102	162	-	(60)	6
	780,344	**48,104**	**(4,348)**	**727,902**	

Total impact if foreign currency fluctuates against AED **+/-14,618**

34. Currency risk (continued)

Rate sensitivity analysis (continued)

Year 2017

	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	1,401,856	17,887	(29)	1,383,940	(27,679)
Saudi Riyal	28,038	-	-	28,038	(561)
Bahrain Dinar	220	-	-	220	(4)
Omani Riyal	134	-	-	134	(3)
Qatar Riyal	139	8	-	131	(3)
Other Currencies	-	-	-	-	-
Kuwait Dinar	917	-	-	917	(92)
Great British Pound	16,051	15,788	(238)	25	(3)
Euro	3,557	3,319	(551)	(313)	31
Swiss Frank	277	9	(377)	(109)	11
Japanese Yen	411	69	(326)	16	(2)
Indian Rupee	14	-	-	14	(1)
Lankan Rupee	5	-	-	5	(1)
Jordanian Dinar	167	-	-	167	(17)
Canadian Dollar	494	175	(292)	27	(3)
	1,452,280	37,255	(1,813)	1,413,212	
Total impact if foreign currency fluctuates against AED					+/-28,327

35. 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 Group's:

- Consolidated statement of comprehensive income would have increased/decreased by AED 151.17 million (2017: AED 132.62 million) and consolidated statement of income would have increased/decreased by AED 4.90 million (2017: 0.7 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.

36. Capital management

Group'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 Group's future dividend policy. The Group 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 Group 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 Group:

	2018	2017
	AED'000	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
Fair value reserves on investment securities at FVTOCI	**56,901**	-
Retained earnings	**1,463,200**	1,263,040
Total Tier 1	**4,393,807**	4,136,746
Tier 2 Capital		
Fair value reserve on investment securities available-for-sale	**-**	16,591
General reserves on unclassified loans and advances	**140,719**	142,535
Total Tier 2	**140,719**	159,126
Total Regulatory Capital	**4,534,526**	4,295,872

	2018	2017
	AED'000	AED'000
Risk weighted assets :		
Credit risk-weighted assets	**11,257,578**	11,402,811
Market risk-weighted assets	**49,982**	8,197
Operations risk-weighted assets	**1,038,761**	1,001,815
Total risk-weighted assets	**12,346,321**	12,412,823

36. Capital management (continued)

BASEL III Capital Ratio

As per UAE Central Bank Regulation for Basel III, Minimum Capital Requirement including Capital Conservation Buffer is 12.375% for the year 2018, which will increase to 13.0% for year 2019.

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

The additional capital buffers Capital Conservation Buffer (CCB) maximum up to 2.5% and Countercyclical Capital Buffer (CCyB) maximum up to 2.5% introduced over and above the minimum CET1 requirements of 7%.

For year 2018, CCB is effective in transition arrangement and is required to be maintained at 1.875% of the capital base. For year 2019, CCB will be required at 2.5% of the capital base. Countercyclical Capital Buffer (CCyB) is not yet in the effect and is not required to be maintained for year 2018.

The Capital Adequacy Ratio as per Basel III capital regulation is given below:

Capital ratio	**2018** **%**	**2017** **%**
Total capital adequacy ratio	**36.73**	**34.61**
Common equity Tier 1 capital ratio	**35.59**	**33.46**
Tier 1 capital ratio	**35.59**	**33.46**

Minimum capital required under each of the above items including CCB is as below;

Capital element	**2018**	**2019**
Minimum Common Equity Tier 1 (CET 1) ratio	**7%**	**7%**
Minimum tier 1 capital ratio	**8.5%**	**8.5%**
Minimum capital adequacy ratio	**10.5%**	**10.5%**
Capital conversion buffer (CCB)	**1.875%**	**2.5%**

37. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 27 January 2019.