Annual Report
2017

بنك أم القيوين

NBQ

His Highness Sheikh

SAUD BIN RASHID AL-MUALLA

Member of the Supreme Council of the United Arab Emirates

&

Ruler of Umm Al Qaiwain

His Highness Sheikh

RASHID BIN SAUD BIN RASHID AL-MUALLA

Crown Prince of Umm Al Qaiwain


CONTENT


Umm Al Qaiwain Branches

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

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

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

Dubai Branches

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

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

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

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

Abu Dhabi Branches

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

Mussafah Branch
P.O. Box 9770 Abu Dhabi

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

Sharjah Branches

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

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

Ajman Branches

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

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

Fujairah Branch

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

Ras Al Khaimah Branch

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

Board of Directors

H.H. Sheikh Rashid Bin Saud Bin Rashid Al-Mualla
Chairman of the Board

Sheikh Nasser Bin Rashid Al-Moalla
Vice Chairman of the Board and Chief Executive Officer

Mr. Abduljaleel Yousuf Darwish
Member of the Board / Director

Mr. Issa Abdulrahman Ateeq
Member of the Board / Director

Mr. Salem Abdulla Salem Al Housani
Member of the Board / Director

Mr. Marwan Abdulla Hassan Al Rostamani
Member of the Board / Director

Mr. Abdulla Mohammed Saleh Al Zarouni
Member of the Board / Director

Management

Sheikh Nasser Bin Rashid Al-Moalla
Vice Chairman of the Board and Chief Executive Officer

Mr. Ramachandra Iyer
General Manager

Chairman's Report

On behalf of the Board, I am pleased to welcome you all to the 35th Annual General Meeting of the bank and present the annual report of the Board of Directors for the year ended 31 December 2017.

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 369.76 million which is 13.51% more than last year. Our total revenue reached AED 636.67 million and operating income stood at AED 350.43 million for the year ended 31 December 2017.

Total assets reached AED 14.12 billion. Loans and advances were at AED 9.46 billion recording an increase of 7.41% compared to last year, while customer deposits stood at AED 9.51 billion marginally up from last year.

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. Our NPL ratio has marginally improved as compared to year 2016. With more cases in execution, it is expected that the ratio would improve sharply during the current year.

Shareholders' equity amounted to AED 4.17 billion as at 31 December 2017 (2016: AED 3.99 billion).

The Bank has consistently maintained high level of liquidity as in the past and liquidity ratio as of 31 December 2017 stands at 26.87%. We continue to maintain one of the highest capital adequacy ratios in the banking industry which stands at 34.61% 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 33.33%, which is also substantially higher than the prescribed limits stipulated by the regulatory authorities. Cost to income ratio is 31.8% which is comparatively below industry levels.

Payment of cash divided of 10% of the share capital for the year ending 31st December 2017 has been approved by UAE Central Bank.

During 2017, the UAE's growth was estimated at around 1.6% partly because of cuts in oil output under a global deal among producers. UAE is expected to grow around 3.5-4% in 2018 based on the expected growth in investment in the infrastructure projects, foreign trade and firming oil prices. Markets expect the oil price to continue its gradual upward movement.

Interest rates in UAE are expected to demonstrate an upward trend based on the expected interest rate hikes in Fed Rates during 2018. Umm Al Qaiwain, where the Bank is head quartered, is witnessing higher developmental activities in the infrastructural front.
During 2018, 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 picked up momentum in 2017 registering improvements in growth rate and employment data. US Federal reserve raised interest rates 3 times during the year. Europe showed signs of recovery and China continued its high growth though India slightly lagged behind in growth due to disruptions and changes in its tax rules.

World Bank forecasts global economic growth to edge up to 3.1% in 2018. Growth in emerging market and developing economies is projected to strengthen to 4.5% in 2018.

Growth in GCC is expected to reach around 3% by 2020 supported by easing fiscal adjustments, infrastructural 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 2017 and are slated to move up in 2018 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.

Chairman’s Report (continued)

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

Management Review

ECONOMIC OVERVIEW

The year 2017 has been challenging for the Middle East region. OPEC's production cuts have weighed on existent GDP growth. Although oil prices have shown signs of regaining momentum, they persist well below 2014 levels, maintaining pressure on the local governments to expand revenues and reform budgets.

Oil price recovered smartly and went up by nearly 20% in 2017. It was well supported by the cap in oil production by OPEC countries/Russia.

There were some diplomatic concerns within the GCC. Still, UAE economy continued its upward growth trajectory. After the introduction of Value Added Tax, UAE growth rate is likely to accelerate further to around 3.4% in 2018. The contribution of non-oil sector in economic growth is also increasing year after year.

Stock indices at Abu Dhabi Securities Exchange and Dubai Financial Market came down marginally during 2017 but are poised for an upward movement in 2018 on the expectations of higher oil prices and accelerated economic growth.

During 2018, market players expect pick up in bank credit growth but with caution.

FINANCIAL OVERVIEW

Despite challenging economic scenario and the competition in the banking industry, the Bank has achieved total revenue of AED.636.67 million for the year ended 31st December 2017, operating income of AED.350.43 million and net profit of AED.369.76 million. Net profits of the Bank rose 13.51% as compared to year 2016. Net provision charge for loan impairment decreased by 68% as compared to the same period last year.

Total assets reached AED.14.12 billion. Loans and advances were at AED.9.46 billion recording an increase of 7.41% as compared to last year while customer deposits stood at AED.9.51 billion up by 5.52% as compared to last year.

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. Our NPL ratio stood at 6.73% with a marginal improvement as compared to the year 2016.

Shareholder's equity amounted to AED.4.17 billion as at 31st December 2017. The Bank consistently maintained high level of liquidity as in the past and liquidity ratio as at 31st December 2017 stands at 26.87%. The Bank continues to maintain one of the highest capital adequacy ratios in the banking industry which stands at 34.61% and is higher than the minimum prescribed level stipulated by the UAE Central Bank. This demonstrates the financial strength of the Bank and its capacity to expand its lending capability, when needed.

Tier 1 ratio is recorded at 33.33% which is also substantially higher than the prescribed limits stipulated by the regulatory authorities. Cost to income ratio is 31.8% which is comparatively better than the industry levels which demonstrates the Bank's operational efficiency and cost controls exercised.

OPERATIONAL PERFORMANCE

Treasury, Investments and Institutional Banking

The Bank's investment strategy once again gave us sustained yields during the year. The approach of safety along with returns has been earning us good income by way of dividends from equity portfolio and interest from bonds and syndicated loans. Prudent investment policies, exit strategies and internal reporting mechanisms were practiced to mitigate risks on the exposures, which facilitated the bank to maintain sound and stable income on the Bank's fund utilization and investment portfolios.

Wholesale Banking

During 2017, the Bank continued to be optimistic with an overall cautious approach and achieved reasonable level of growth in the Wholesale Banking portfolio. The Bank maintained strong momentum in its core business and managed to maintain its level of assets with fresh disbursements. Its focus continued on leveraging existing customers and acquiring new business from established houses. The Bank expects to maintain the same strategy of cautious growth in 2018 as well and will explore fresh avenues and sectors to accomplish its business objectives budgeted for 2018.

Retail Banking

Through the network of branches and Electronic Banking Units (EBUs), the Bank offers its retail range of products and services to individuals and small business entities. The Bank also maintains a network of ATMs/CCDMs across the country for the convenience of its customers.

The focus of Retail Banking is to continue serving and growing its UAE National customer base by meeting their financial requirements by providing them housing loans in addition to other lending and deposit products. Retail lending continues to be prudent in its growth approach by exercising caution and care towards the Expatriate and small business target segment. Retail segment also focuses on the improvement of the Retail assets products profitability steadily by sourcing good quality loans.

During 2018, the bank intends to launch state of the art mobile banking and upgrade online Banking services to its customers with added features.

Management Review (continued)

Information Technology and Operations

NBQ continued with the technology investment strategy with focus on building solid enterprise network capabilities, enhanced security and digitalization. Bank continued with its disaster recovery activities and successfully completed disaster recovery exercise across all critical applications identified by the earlier business impact assessment. Internal developments were focused to digitalize paper based process flows to increase efficiency, transparency, tracking and auditing. We completed the upgrade of core network and security layers successfully. As part of this upgrade, we further strengthened our network performance, availability and monitoring capabilities. Forensic capabilities also were added along with enhanced and extensive security solutions which range from perimeter to internal core network including end points. Integrated Network access control and antimalware protection solutions were implemented. Integration of additional billers and new user interface and user experience developments are going on. Corporate online-banking also went through upgrade and functional enhancement. Bank's phone banking solution also got upgraded with customer centric options.

HUMAN RESOURCES

The Bank is in the process of revisiting its strategic initiatives to mitigate the risks and to meet the industry challenges encountered and to improve the bottom line. Department restructuring and branch revamping is adopted to optimally utilize the capable and talented resources to improve the operational efficiency and performance. Regulatory and socio-cultural requirements are considered for decision making in the Human resources processes which includes improving the UAE National work force capabilities and involving them in leadership roles and to place them in strategic positions. Constant reviews of human resources policies, upgrade and empowerment policies are carried out to maintain and promote a motivated UAE National workforce.

Human Resources Department considers training needs, talent identification, career planning and succession planning as key objectives to motivate the workforce. Upgrade of the existing Human Resources Management System is contemplated to meet the above requirements with close co-ordination through inter-active sessions. Staff attrition is kept under control by retaining staff members in key positions and Emiratization is well above the prescribed regulatory thresholds.

CORPORATE GOVERNANCE REPORT

The bank was established in 1982 and right from its inception, the Bank has been maintaining good corporate governance, risk management principles, internal control systems and ethical standards commensurate with the size and core values defined by the founders. The bank has laid down its governance practices based on the vision, mission, regulatory requirements and Federal legislations and adopted the best practices prevailing in the industry.

Corporate Governance Framework is managed by Board of Directors, who possess good and sound knowledge of the industry practices and have wide experience to provide strategic direction to the executive management of the Bank. Functional Committees are formed and are mandated to manage different segment disciplines with clear reporting hierarchies. Responsibilities and accountabilities are clearly laid down for the Board, Committees and Senior Management through well-defined responsibility charts and matrices. Board sets the strategic goals of the Bank and provides leadership and supervises the management of the bank and report to the Shareholders. Board actions are governed by Federal Companies Law and Union Law relevant to the banking industry, regulatory norms and as per the decisions taken by the shareholders in the General Meetings.

Corporate Governance structure and frame work

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

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

Transparency and disclosure requirements are key factors considered by the Board in its actions, which are fundamental to the compliance of the governance practices and communicate with the senior management through appropriate communication forums. Board has delegated relevant powers to the Vice Chairman and a Nominated Director for decision making at Executive Committee level.

Board committees

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

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

Audit and Risk Committee

Audit and Risk Committee handles issues related to internal control, internal audit and enterprise wide risk related matters. This committee meets periodically. Vice Chairman, two Directors, General Manager, Head of Risk Department and Head of Internal Audit Department attend the committee meetings.

Management Review (continued)

Senior Management

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

Management committees

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

Asset and Liability Committee (ALCO)

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

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

Director's remuneration

Remuneration of the Directors is approved at the Annual General Meeting every year and is paid after the close of the year and it is disclosed in the financial statements.

Vice Chairman is paid monthly salary.

INFORMATION SECURITY FRAMEWORK

The Bank, while taking into consideration the global threats related to cybersecurity and the increased sophistication of attacks, have implemented controls and processes to improve and enhance the safeguards for critical infrastructure. This is achieved by implementing controls recommended in SWIFT Customer Security Program (CSP) and enhancing the Information Security Management System (ISMS) policies and controls based on recommendations by Central Bank's National Electronic Security Authority/ Information Assurance (NESA IA) standard and other industry best practices.

INTERNAL CONTROL FRAMEWORK

The Bank maintains internal control policy frame work which is constantly monitored by Senior Management, Internal Audit Department, Risk management and Compliance Departments.

The Bank also maintains control on the risk profile and risk management practices which are consistently being reviewed by the Committees and compliance team. Based on the internal assessment, the bank maintains adequate capital to support its future growth and address risks inherent in the industry.

Manuals and operational procedures are prepared and maintained for compliance and are refined from to time with the best industry practices.

External Auditors

Deloittee and Touche (M.E) were appointed as External Auditors for the Bank including its subsidiary for the year 2017 by the Shareholders at last Annual General Meeting. Appointment of Auditors is done in accordance with the Articles of Association of the Bank. During 2017, External Auditors did not provide any consultancy services to the Bank that would hamper their independence and objectivity. External Auditors were involved as per the Central Bank requirements in studying and assessing the IFRS 9 impact which did not hamper their independence and objectivity.

RISK MANAGEMENT

Credit Risk

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

As part of pro-active credit monitoring, tracking of Early Warning Signals and independent physical inspection of projects are undertaken through Risk

Management Review (continued)

Containment Unit. Management of stressed accounts and non-performing loans is centralized. Exposure monitoring including concentration levels at single obligor and sectoral levels are monitored by Portfolio Management Unit. The Bank is working on implementation of Foundation IRB approach of Basel II as per CBUAE guidelines in this regard. During the reporting period, the Bank made a comprehensive review of the Wholesale banking portfolio on various parameters based on past experience and laid the platform for future growth in this segment.

Market Risk

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

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

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

Basel Implementation

The Bank adheres to the UAE Central Bank guidelines required for Basel compliance Implementation including submission of ICAAP report annually to Central Bank of the UAE. The Bank is also in compliance with Central Bank of UAE norms for standardized approach for computation of capital adequacy ratios.

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

Operations Risk

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

The Bank has implemented the under noted processes aimed at monitoring and mitigating Operational risks:-

- Identification of risk through Risk and Control Assessment and incident/loss event reporting to Centralized Operational Risk Function.
- Management and control of risk to prevent their recurrence or minimize the potential impact.
- Monitoring and reporting of Risk.
- Establish a Centralised Repository for capturing Operational Risk Losses.

With proliferation of the advanced technologies, the use of internet and telecommunications technologies to conduct financial transactions has increased the sophistication and information security risk for Financial institutions. To combat security breaches, Bank has set up a dedicated Information and security Compliance Department to ensure long term viability of the Bank and its data.

The Bank has in place, a Policy and Comprehensive framework for Operational risk in monitoring, assessing, evaluating, controlling and mitigating risks arising out of regular banking operations. The framework is enhanced by strong compliance, monitoring and governance, which includes active participation of Board of Directors, Executive Management and Business line Management in the risk management process.

Business Contingency and continuity plan

The Bank has set up a Disaster Recovery (DR) site to ensure that the bank's regular functioning is not disrupted by unforeseen events/disasters/sytem related failures. DR site is located away from the main processing center and well documented Business Contingency and Continuity plan is in place.

COMMUNITY RELATIONS

The Bank has been consistently participating in social welfare measures in the emirate and taking valuable initiatives from Corporate Social Responsibility perspectives. The Bank also provide valuable support to charitable, educational, social, medical and other recreational initiatives undertaken in the country by socio-cultural organizations from time to time.

CONCLUSION

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

Nasser Bin Rashid Al-Moalla
Vice Chairman & Chief Executive Officer

Independent Auditor's Report

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

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of National Bank of Umm Al-Qaiwain (PSC) ("the Bank") and its Subsidiary (together "the Group"), Umm Al-Qaiwain, United Arab Emirates which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances	
The management exercises significant judgement when determining the timing and amount of loan impairment. The audit of loan impairment is a key area of focus because of the significant judgements involved and the size of loans and advances (representing 67% of total assets).	We tested the design, implementation and operating effectiveness of the key controls to determine which loans and advances are impaired and provisions against those assets. These included testing:
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.	• System-based and manual controls over the timely recognition of impaired loans and advances; • Controls over the impairment calculation models including data inputs; • Controls over collateral valuation estimates • Controls over governance and approval process related to impairment provisions, including continuous reassessment by the management.
Impaired loans are measured on the basis of the present value of expected future cash flows including observable market price or fair value of the collateral. The impairment loss is calculated based on the shortfall in the loans carrying value compared to the net present value of future cash flows using original effective interest rate.	We recalculated and compared the impairment provisions recorded for retail loans and advances as per the Central Bank guidance which specifies specific provisions based on the number of days past due.
The factors considered when determining impairment losses on individually assessed accounts include the customer's aggregate borrowings, risk rating,	We tested a sample of individual loans and advances to assess whether impairment events had occurred and adequate impairments provisions had been recorded in a timely manner.

Key audit matters (continued)

Impairment of loans and advances (continued)	
value of the collateral and probability of successful repossession and the costs involved to recover the debts. Impairment losses of collectively assessed loans include the allowances calculated on performing loans and small value loans with common features, which are not individually significant. In assessing collective impairment the Group uses the higher of 1.5% of credit risk weighted assets computed as per UAE Central Bank guidelines and an estimated impairment allowance as per the Group's policies described above and IFRS.	Further, we focused our attention on individually significant exposures, where we tested the estimates and assumptions used by management underlying the impairment identification and quantification, valuation of underlying collateral by external experts and estimated recovery on default. For the collective impairment calculations used by the Group, we tested a sample of the data used in the calculations as well as evaluating the methodology and judgements involved. For the key assumptions used in the calculations, we challenged management to provide objective evidence that they were appropriate and included all relevant risks. We recalculated the collective impairment provision as per the Group's policies and IFRS and compared it with the calculations as per UAE Central Bank to ensure adequacy of the provision.
Impairment of available-for-sale financial instruments	
The impairment of the Group's available-for-sale financial instruments was a key area of focus given the significance of the judgement involved in determining the impairment to be recognized and the size of the available-for-sale financial instruments (representing 5% of the total assets). Impairment of available-for-sale investments is determined when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires significant judgement, particularly given the uncertainties that exist in the external markets. As described in Note 4 to these consolidated financial statements, in making such judgments the Group evaluates the normal volatility of the share price, financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.	In considering the impairment of available for sale securities, we compared the fair valuation of the securities to its original purchase price and reviewed its historical share performance, to identify any significant or prolonged decline in the securities. We evaluated the key judgments made by the Group in determining the impairment losses. Our audit procedures included, among others, verification of sufficient appropriate audit evidence related to the underlying data driving the judgments to ensure its accurate and complete. Further, we reviewed the conclusions reached by the Group, to ensure it is consistent with the appropriate application of the judgments.

Independent Auditor's Report
(continued)

Other information

The Board of Directors and management is responsible for the other information. The other information comprises the annual report of the 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.

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

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

Independent Auditor’s Report
(continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the 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.

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 2017;
- 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 2017, 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 2017;
- Note 21 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2017.

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

Deloitte & Touche (M.E)

Musa Ramahi
Registration No. 872
28 February 2018
Dubai
United Arab Emirates

Consolidated statement of financial position
At 31 December 2017

	Notes	2017 AED'000	2016 AED'000
Assets			
Cash and balances with the U.A.E. Central Bank	5	**2,042,785**	1,642,905
Due from other banks	6	**1,080,246**	1,544,868
Loans and advances	7	**9,461,437**	8,808,894
Investment securities	8	**1,101,176**	1,143,186
Customers' acceptances		**220,244**	260,393
Investment in an associate	9	**1,650**	1,757
Property and equipment	10	**68,550**	68,124
Other assets	11	**146,447**	82,180
Total assets		**14,122,535**	13,552,307
Liabilities			
Due to other banks	12	**3,498**	70,000
Customers' deposits	13	**9,510,551**	9,012,959
Customers' acceptances		**220,244**	260,393
Other liabilities	14	**214,628**	222,821
Total liabilities		**9,948,921**	9,566,173
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		**36,868**	34,343
Retained earnings		**1,263,040**	1,078,085
Total shareholders' equity		**4,173,614**	3,986,134
Total liabilities and shareholders' equity		**14,122,535**	13,552,307
Commitments and contingent liabilities	18	**7,776,518**	7,959,606

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

Rashid Bin Saud Al Mualla
Chairman

Nasser Bin Rashid Al Moalla
Vice Chairman and Chief Executive Officer

Consolidated statement of income for the year ended 31 December 2017

	Notes	2017 AED'000	2016 AED'000
Interest income	19	474,546	450,890
Income from Islamic financing products		45,882	47,689
Total interest income and income from Islamic financing products		520,428	498,579
Interest expense	19	(64,424)	(54,714)
Distribution to depositors – Islamic products		(411)	(500)
Net interest income and income from Islamic products net of distribution to depositors		455,593	443,365
Fees and commission income		48,895	46,488
Other operating income	20	27,779	34,120
Gross income		532,267	523,973
Operating expenses	21	(181,839)	(169,601)
Operating income		350,428	354,372
Investment gains	22	39,564	41,850
Impairment losses on investments securities-net	8	-	(5,000)
Provision for impairment of loans and advances - net	7	(21,011)	(66,310)
Share of profits from an associate	9	774	822
Profit for the year		369,755	325,734
Basic earnings per share (AED)	24	0.20	0.18

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

Consolidated statement of comprehensive income for the year ended 31 December 2017

	2017 AED'000	2016 AED'000
Profit for the year	**369,755**	325,734
Other comprehensive income/ (loss)		
Items that are or may be reclassified subsequently to profit or loss:		
Available-for-sale investments:		
Net (loss)/gain on available-for-sale investments recognised directly in equity (Note 8)	**2,506**	(25,644)
Loss reclassified to profit and loss on impairment of available-for-sale investments (Note 8)	**-**	5,000
Transfer from equity on sale of available-for-sale investments	**19**	230
Other comprehensive loss for the year	**2,525**	(20,414)
Total comprehensive income for the year	**372,280**	305,320

Consolidated statement of changes in equity for the year ended 31 December 2017

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Cumulative change in fair values AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2015	1,848,000	1,019,266	6,440	54,757	1,066,511	3,994,974
Profit for the year	-	-	-	-	325,734	325,734
Other comprehensive loss for the year	-	-	-	(20,414)	-	(20,414)
Total comprehensive income for the year	-	-	-	(20,414)	325,734	305,320
Dividend paid	-	-	-	-	(314,160)	(314,160)
Balance at 31 December 2016	1,848,000	1,019,266	6,440	34,343	1,078,085	3,986,134
Profit for the year	-	-	-	-	369,755	369,755
Other comprehensive loss for the year	-	-	-	2,525	-	2,525
Total comprehensive income for the year	-	-	-	2,525	369,755	372,280
Dividend paid (Note 25)	-	-	-	-	(184,800)	(184,800)
Balance at 31 December 2017	1,848,000	1,019,266	6,440	36,868	1,263,040	4,173,614

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

Consolidated statement of cash flows for the year ended 31 December 2017

	2017 AED'000	2016 AED'000
Cash flows from operating activities		
Profit for the year	**369,755**	325,734
Adjustments for:		
Provision for asset impairment - net	**21,011**	71,310
Depreciation of property and equipment	**11,752**	12,559
(Increase)/decrease in fair value of investment securities at FVTPL – held for trading	**(1,665)**	(1,326)
Discount amortised	**(111)**	(360)
Loss/(gain) on disposal of investment securities	**63**	(2,339)
Gain on disposal of inventory	**(395)**	(11,313)
Dividend income	**(37,728)**	(37,825)
Share of profits from an associate	**(774)**	(822)
(Gain)/loss on disposal of property and equipment	**(177)**	143
Operating cash flows before changes in operating assets and liabilities	**361,731**	355,761
Increase in certificates of deposit with original maturity greater than 3 months	**(410,000)**	(700,000)
(Increase)/decrease in statutory deposit with U.A.E. Central Bank	**(52,006)**	11,117
Increase in loans and advances	**(673,554)**	(61,400)
Increase in other assets	**(66,991)**	(3,926)
Proceeds from disposal of inventory	**3,119**	88,050
Decrease in due to other banks	**(66,502)**	(100,117)
Increase in customers' deposits	**497,592**	246,536
(Decrease)/increase in other liabilities	**(8,193)**	66,532
Net cash used in operating activities	**(414,804)**	(97,447)
Cash flows from investing activities		
Purchase of property and equipment	**(12,420)**	(12,005)
Proceeds from disposal of property and equipment	**419**	360
Purchase of investment securities	**(680)**	(15,666)
Proceeds from maturity and disposal of investment securities	**46,928**	76,967
Dividend received from investment securities	**37,728**	37,825
Dividend received from investment in an associate	**881**	712
Net cash generated from investing activities	**72,856**	88,193
Cash flows from financing activities		
Dividend paid	**(184,800)**	(314,243)
Net cash used in financing activities	**(184,800)**	(314,243)
Net (decrease)/increase in cash and cash equivalents	**(526,748)**	(323,497)
Cash and cash equivalents at the beginning of the year	**2,079,312**	2,402,809
Cash and cash equivalents at the end of the year (see Note 27)	**1,552,564**	2,079,312

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

Notes to the consolidated financial statements for the year ended 31 December 2017

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 16 branches and 9 electronic banking service units in U.A.E.

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

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

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 12 *Income Taxes* recognition of deferred tax assets for unrealised losses The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

  The application of these amendments has had no impact on the Group's consolidated financial statements.

- Amendments to IAS 7 *Disclosure Initiative*
  The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.
  The application of these amendments has had no impact on the Group's consolidated financial statements.

- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12
  The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see Note 2.2).

  IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

  The application of these amendments has had no effect on the Group's consolidated financial statements.

2.2 New and revised IFRS in issue but not yet effective

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

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.	1 January 2018
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018

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	1 January 2018
Amendments to IFRS 4 *Insurance Contracts:* Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
• Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014) (a)	1 January 2018

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

- A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*.

The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

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

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.

1 January 2019

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:

1 January 2018

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

IFRS 16 *Leases* 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.	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 IFRS 7 *Financial Instruments*: Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 *Financial Instruments*: Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. 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, except for IFRS 9 as highlighted below, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

In July 2014, the IASB issued IFRS 9 "*Financial Instruments*", which replaces IAS 39 "*Financial Instruments: Recognition and Measurement*". IFRS 9 introduces new requirements for how an entity should classify and measure financial assets, requires changes to the reporting of 'own credit' with respect to issued debt liabilities that are designated at fair value, replaces the current rules for impairment of financial assets and amends the requirements for hedge accounting. The standard also requires entities to provide users of financial statements with more informative and relevant disclosures. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Based on 31 December 2017 data, the Group made initial estimates that the transition impact of IFRS 9 will reduce Shareholder's equity by approximately 0.67%.

This assessment is preliminary because not all transition work has been finalized. The Group is of the view that the actual impact of adopting the standards as at 1 January 2018 may undergo change because:

1. The Group is in the process of refinement and validation of impairment models and related process controls.
2. Final Central Bank guidelines on IFRS 9 are awaited that may impact the results.

The Group has a centrally managed IFRS 9 program sponsored by the departments of Credit Risk and Finance and includes subject matter experts on methodology, data sourcing and modelling, IT processing and reporting. The Group performed parallel runs in 2017 to ensure procedural readiness and further improve the data quality.

Overall governance of the program's implementation is through the IFRS 9 Steering Committee and includes representation from Finance, Risk and IT. Guidance and training on IFRS 9 across the Group is delivered across businesses and functions as part of the Group's internal control systems. The Group enhanced its existing governance framework to ensure that appropriate validations and controls are in place over new key processes and significant areas of judgment. Governance over the Expected Credit Loss calculation process is split across Risk and Finance functions.

The Group plans to adopt the new standard on the required effective date from 1 January 2018. The Group will avail of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment change. Differences in the carrying amounts of financial assets resulting from the impairment assessment as required by IFRS 9 will be recognised in opening retained earnings and reserves as at 1 January 2018.

Classification and measurement of financial assets and liabilities

IFRS 9 requires that an entity's business model and a financial instrument's contractual cash flows will determine its classification and measurement in the financial statements. As the requirements under IFRS 9 are different than the assessments under the existing IAS 39 rules, some differences to the classification and measurement of financial assets under IAS 39 are expected. The classification and measurement of financial liabilities remain largely unchanged under IFRS 9 from current requirements.

The Group made an initial determination of business models and assessed the contractual cash flow characteristics of the financial assets to determine the potential classification and measurement changes as a result of IFRS 9. As a result of the analysis performed thus far, the Group has identified a population of financial assets which are expected to be measured at either amortized cost or fair value through other comprehensive income, which will be subject to the IFRS 9 impairment rules.

IFRS 9 retains most of the existing requirements for financial liabilities. However, for financial liabilities designated at fair value through profit or loss, gains or losses attributable to changes in own credit risk may be presented in other comprehensive income. The Group does not have any financial liabilities designated at fair value.

Impairment of financial assets

The impairment requirements are complex and require management judgements, estimates and assumptions. Key concepts and management judgements as defined by the IFRS 9 Steering Committee were continued to be refined during the 2017 parallel run and include:

- Determining a significant increase in credit risk since initial recognition
- Forward-looking information
- Definition of default and credit impaired assets
- Expected life
- Modelling techniques

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVTOCI, and off balance sheet lending commitments such as loan commitments and financial guarantees (hereafter collectively referred to in this note as financial assets).

The determination of impairment losses and allowance will move from an incurred credit loss model whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions are taken upon initial recognition of the financial asset (or the date that the Group becomes a party to the loan commitment or financial guarantee), based on expectations of potential credit losses at that time under IFRS 9.

Under IFRS 9 for financial assets originated or purchased, the Group will recognize a loss allowance at an amount equal to 12-month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). This amount represents the portion of the lifetime expected credit losses that represent the expected credit losses resulting from default events that are possible within the next 12 months. The interest revenue is calculated on the gross carrying amount for financial assets in Stage 1.

IFRS 9 requires the recognition of lifetime expected credit losses which are considered to have experienced a significant increase in credit risk (Stage 2) and for financial assets that are credit impaired at the reporting date (Stage 3). The lifetime expected credit losses represent all possible default events over the expected life of a financial instrument. The Group leverages existing risk management indicators (e.g. Days Past Due), and taking into consideration reasonable and supportable information which allows the Group to identify whether the credit risk of financial assets has significantly increased. The interest revenue is calculated on the gross carrying amount for financial assets in Stage 2.

As criteria for credit impaired financial assets moving to Stage 3, the Group will apply the default definition as defined by the IFRS 9 Steering Committee. Interest revenues are calculated on the net carrying amount for these financial assets only.

The Group has decided to measure the allowance for credit losses on an individual transaction basis for the larger Wholesale portfolios, and a collective assessment methodology for the Retail portfolios. The assessment for transferring financial assets between Stages 1, 2 and 3 will however be made on an individual basis.

There is no specific methodology defined in IFRS 9 for the measurement of expected credit losses. The Group applied the most widely used methodology for the computation of expected loss in the banking industry which uses three key input parameters, being probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD').

The Group will leverage the existing parameters of the Basel framework and risk management practices as much as possible. However, given the conservatism inherent in the regulatory expected losses calculation, some adjustments to these components are made to ensure compliance with IFRS 9. These are identified and informed to the Steering Committee.

Since there will be an increase in subjectivity, as the allowance for credit losses will be based on reasonable and supportable forward-looking information, the general use of forward-looking information, including macro-economic forecasts will be monitored by a governance framework.

To maintain consistency & reliability, the macro-economic scenario information is planned to be sourced from CBUAE published reports & guidelines. This information will be used to generate possible future scenarios by utilizing the Group's stress testing infrastructure with appropriate modifications to align with IFRS 9 requirements. The transition impact and effects resulting from the continuous application of IFRS 9 are reflected in the Group's capital planning for 2018 and onwards.

Hedge accounting

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. Generally, some restrictions under current rules have been removed and a greater variety of hedging instruments and hedged items become available for hedge accounting. The hedging requirements of IFRS 9 are not expected to have a significant impact on Group's consolidated financial statements.

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).

Control is achieved when the Bank:

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

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

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

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

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

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

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

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

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

Subsidiary:

Details of the Bank's subsidiary as at 31 December 2017 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.

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

3.5 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the 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.

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 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.

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.

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.

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.

3.7 Financial liabilities and equity instruments

Classification as debt or equity

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

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

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

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

Derecognition of financial liabilities
The 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**
Computers and equipment	**1 - 5**
Furniture and fixtures	**5**
Leasehold improvements	**3 - 5**
Motor vehicles	**5**

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

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

3.9 Inventory

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

3.10 Impairment of tangible assets

At the end of each reporting period, the 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.

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 recogised as a provision is the best estimate of the consideration required to settle the present abligation at the end of the reporting period, taking into account the risks and uncertainities 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

IItems 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.

3.17 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 Bank offers its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.

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

Definitions

The following terms are used in Islamic financing:

Murabaha
A sales agreement whereby the 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
AA 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.

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.

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

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.

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

	2017 AED'000	2016 AED'000
Balances with the U.A.E. Central Bank:		
Current account	**165,473**	424,955
Certificates of deposits	**1,310,000**	700,000
Statutory deposits	**460,467**	408,461
	1,935,940	1,533,416
Cash in hand	**106,845**	109,489
	2,042,785	1,642,905

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

	2017 AED'000	2016 AED'000
Term deposits	**1,062,844**	1,491,612
Demand deposits	**17,402**	53,256
	1,080,246	1,544,868

7. Loans and advances

	2017 AED'000	2016 AED'000
Loans	**7,790,011**	7,296,831
Overdrafts	**1,325,538**	1,303,722
Islamic financing products	**381,969**	428,873
Loans against trust receipts	**186,601**	111,677
Other	**85,125**	49,976
Total loans and advances	**9,769,244**	9,191,079
Provision for impairment	**(307,807)**	(382,185)
Net loans and advances	**9,461,437**	8,808,894
By economic sector		
Wholesale and retail trade	**1,319,540**	1,430,768
Real estate and construction	**3,492,131**	2,982,578
Personal loans and other	**793,869**	1,045,628
Manufacturing	**379,026**	361,237
Agriculture and allied activities	**1,520**	31,641
Transport and communication	**227,455**	258,748
Financial institutions	**1,147,981**	1,089,075
Services and other	**2,407,722**	1,991,404
	9,769,244	9,191,079

Movement in provision for impairment:

	2017			2016
	Against specific loans and advances AED'000	Against risks inherent in the portfolio AED'000	Total AED'000	Total AED'000
At 1 January	**210,021**	**172,164**	**382,185**	424,500
Provision made during the year	**103,202**	**2,859**	**106,061**	100,781
Provision released during the year	**(85,050)**	**-**	**(85,050)**	(34,471)
Written off/utilised during the year	**(92,722)**	**(2,667)**	**(95,389)**	(108,625)
Provision transferred during the year	**284**	**(284)**	**-**	-
At 31 December	135,735	172,072	307,807	382,185

Net charge for provision for impairment:

	2017 AED'000	2016 AED'000
Provision made during the year	**106,061**	100,781
Provision released during the year	**(85,050)**	(34,471)
	21,011	66,310

The non-performing loans as at 31 December 2017 amounted to AED 657.57 million (2016: AED 637.46 million). Provisions for impairment in relation to such loans amounted to AED 135.74 million as at 31 December 2017 (2016: AED 210.02 million) (see Note 31).

8. Investment securities

	2017 AED'000	2016 AED'000
Securities at fair value through profit or loss		
- held for trading		
Quoted equity securities	**3,251**	3,377
Discretionary funds managed by third parties – quoted equity securities	**246**	19,753
	3,497	23,130
Securities available-for-sale		
Quoted equity securities	**661,480**	658,674
Unquoted equity securities	**6,621**	6,205
	668,101	664,879
Securities held-to-maturity		
Quoted debt instruments	**429,578**	455,177
	1,101,176	1,143,186

Movement in investment securities:

	2017 AED'000	2016 AED'000
At 1 January	**1,143,186**	1,225,876
Purchase of investment securities	**680**	15,666
Disposal and maturity of investment securities	**(46,972)**	(74,398)
Net fair value gain on investment securities at fair value through profit and loss - held for trading	**1,575**	1,549
Net discount amortised on debt securities	**111**	360
Foreign exchange revaluation	**90**	(223)
Net fair value gain/(loss) on investment securities available-for-sale directly recognised in equity	**2,506**	(25,644)
At 31 December	**1,101,176**	1,143,186

Impairment losses on investment securities - net

	2017 AED'000	2016 AED'000
Impairment losses	**-**	5,000

9. Investment in an associate

The detail of associate is as follows:

Name of the associate	Principal activity	Place of incorporation	Ownership (%)	2017 Total AED'000	2016 Total AED'000
Tasareeh Business Men Center LLC	Providing visa application and renewal services, other business men services.	Dubai, UAE	30%	**1,650**	1,757

Movement in the investment in an associate for the year:

	2017 AED'000	2016 AED'000
At 1 January	**1,757**	1,647
Share of profits from an associate	**774**	822
Dividend received from an associate	**(881)**	(712)
At 31 December	**1,650**	1,757

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

	2017 AED'000	2016 AED'000
Total assets	**8,181**	7,496
Total liabilities	**(2,681)**	(1,639)
Net assets	**5,500**	5,857
Group's share of associate's net assets	**1,650**	1,757
Total revenue	**19,241**	12,799
Net profit for the year	**2,580**	2,740
Share of associate's net profit for the year	**774**	822

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 2015	109,188	101,330	5,129	9,729	1,212	3,760	230,348
Additions	156	3,056	260	139	-	8,394	12,005
Disposals	(1,161)	(3,917)	(195)	(2,298)	(85)	-	(7,656)
Transfers	40	1,978	709	153	-	(2,880)	-
31 December 2016	**108,223**	**102,447**	**5,903**	**7,723**	**1,127**	**9,274**	**234,697**
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**
Accumulated depreciation							
31 December 2015	61,797	85,479	4,982	8,011	898	-	161,167
Charge for the year	4,656	6,988	217	617	81	-	12,559
Eliminated on disposals	(1,161)	(3,868)	(195)	(1,844)	(85)	-	(7,153)
31 December 2016	**65,292**	**88,599**	**5,004**	**6,784**	**894**	**-**	**166,573**
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**
Carrying amount							
31 December 2017	**38,342**	**10,738**	**679**	**812**	**408**	**17,571**	**68,550**
31 December 2016	**42,931**	**13,848**	**899**	**939**	**233**	**9,274**	**68,124**

Land and buildings include land costing AED 22.9 million which is not depreciated.
Capital work in progress represents expenditure incurred on equipment and other leasehold improvements.

11. Other assets

	2017 AED'000	2016 AED'000
Inventory*	**71,477**	10,896
Interest receivable	**38,468**	34,409
Prepayments and deposits	**32,049**	30,794
Other	**4,453**	6,081
	146,447	82,180

*Inventory represents properties acquired in settlement of debt.

12. Due to other banks

	2017 AED'000	2016 AED'000
Demand deposits	**3,498**	70,000

By geographical area

	2017 AED'000	2016 AED'000
Within U.A.E.	**-**	70,000
Outside U.A.E	**3,498**	-
	3,498	70,000

13. Customers' deposits

	2017 AED'000	2016 AED'000
Time deposits	**7,071,552**	6,751,936
Savings deposits	**217,162**	208,480
Current accounts	**2,072,877**	1,902,186
Margin deposits	**65,080**	51,854
Islamic customers' deposits	**83,880**	98,503
	9,510,551	9,012,959

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

14. Other liabilities

	2017 AED'000	2016 AED'000
Accounts payable	**35,508**	63,597
Interest payable	**32,712**	29,793
Provision for employees' end of service benefits	**30,268**	29,266
Other staff benefits	**1,302**	1,123
Dividend payable	**11,596**	11,596
Other	**103,242**	87,446
	214,628	222,821

Movement in provision for employees' end of service benefits:

	2017 AED'000	2016 AED'000
At 1 January	**29,266**	27,412
Provision made during the year (Note 23)	**2,572**	2,305
Payments made during the year	**(1,570)**	(451)
At 31 December	**30,268**	29,266

15. Share capital

	2017 AED'000	2016 AED'000
Issued and fully paid:	**1,848,000**	1,848,000
1,848 million ordinary shares of AED 1 each		

16. Statutory reserve

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

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:

	2017 AED'000	2016 AED'000
Guarantees	**5,910,964**	5,773,109
Letters of credit	**112,398**	127,523
Commitments to extend credit	**1,727,944**	1,834,180
Other	**25,212**	224,794
At 31 December	**7,776,518**	7,959,606
By geographical area		
Within U.A.E.	**7,713,443**	7,871,978
Outside the U.A.E.	**63,075**	87,629
	7,776,518	7,959,606

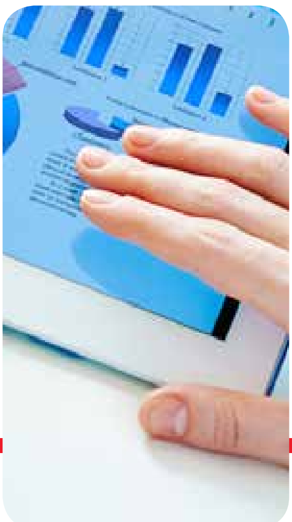
Guarantees, which represent irrevocable assurances that the Group will make payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

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.

b) Capital commitments
At 31 December 2017, the Group has capital commitments of AED 2.14 million (2016: AED 6.26 million).



19. Interest income and expense

	2017 AED'000	2016 AED'000
Interest income		
Loans and receivables		
Loans and advances	**430,910**	419,974
Deposits with the U.A.E. Central Bank	**10,041**	2,334
Other banks	**16,244**	9,818
Investment in debt securities	**17,351**	18,764
	474,546	450,890
Interest expense		
Financial liabilities at amortised cost		
Customers' deposits	**63,826**	54,603
Borrowings from other banks	**598**	111
	64,424	54,714

20. Other operating income

	2017 AED'000	2016 AED'000
Rental income	**9,012**	7,984
Foreign exchange income – net	**2,977**	5,324
Gain on disposal of inventory	**395**	11,313
Other	**15,395**	9,499
	27,779	34,120

21. Operating expenses

	2017 AED'000	2016 AED'000
Staff costs (Note 23)	**88,417**	91,671
Occupancy costs	**26,473**	25,802
Depreciation (Note 10)	**11,752**	12,559
Staff benefits (Note 23)	**8,806**	9,185
Fees and commission expenses	**1,430**	1,252
Other*	**44,961**	29,132
	181,839	169,601

* Includes an amount of AED 0.24 million (2016: AED 0.47 million) paid towards social contribution (including donation and charity) during the year.

22. Investment gains

	2017 AED'000	2016 AED'000
Dividend income		
a) Investment securities available-for-sale	**37,491**	37,062
b) Investment securities at fair value through profit and loss	**237**	763
Fair value gain/(loss) on investment securities at fair value through profit and loss	**1,575**	1,549
Foreign exchange revaluation	**90**	(223)
Net discount amortised on debt securities	**111**	360
Profit on disposal of investments		
a) Investment securities available-for-sale	**(19)**	1,366
b) Investment securities at fair value through profit and loss	**(44)**	973
Other investment income	**123**	-
	39,564	41,850

23. Staff costs

	2017 AED'000	2016 AED'000
Staff costs		
Salaries and allowances	**87,168**	89,265
Staff training	**913**	462
Housing and medical	**336**	1,944
	88,417	91,671
Staff benefits		
Pension	**3,849**	4,139
End of service benefits (Note 14)	**2,572**	2,305
Other	**2,385**	2,741
	8,806	9,185

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.

	2017	2016
Profit for the year in AED	**369,755,000**	325,734,000
Average number of shares in issue	**1,848,000,000**	1,848,000,000
Basic earnings per share in AED	**0.20**	0.18

There were no potentially dilutive shares as at 31 December 2017 and 2016.

25. Dividend per share

Payment of cash dividend of 10% amounting to AED 184.8 million for the year ended 31 December 2017 has been approved by the UAE Central Bank (2016: cash dividend amounting to 184.8 million).

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.

	2017 AED'000	2016 AED'000
Interest income	**20,085**	24,443
Interest expense	**35,736**	28,445
Remuneration of key management personnel	**6,148**	6,227
Other income	**1,365**	1,819
Directors' fees	**3,000**	1,900
Gain on disposal of inventory	**-**	11,279

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

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

	2017 AED'000	2016 AED'000
Loans and advances	**414,702**	788,143
Customer deposits	**1,586,872**	1,359,328
Irrevocable commitments and contingent liabilities	**831,549**	743,328

27. Cash and cash equivalents

	2017 AED'000	2016 AED'000
Cash and balances with the U.A.E. Central bank (Note 5)	**2,042,785**	1,642,905
Term and demand deposits with other banks (Note 6)	**1,080,246**	1,544,868
Statutory deposits (Note 5)	**(460,467)**	(408,461)
Certificates of deposits with original maturity over 3 months	**(1,110,000)**	(700,000)
	1,552,564	2,079,312

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

31 December 2017	**Retail and corporate banking AED'000**	**Treasury and investments AED'000**	**Unallocated AED'000**	**Total AED'000**
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**
31 December 2016				
Gross income	467,135	48,854	7,984	**523,973**
Segment result	339,903	84,184	(98,353)	**325,734**
Segment assets	8,464,784	5,019,130	68,393	**13,552,307**
Segment liabilities	9,273,393	281,184	11,596	**9,566,173**

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

Assets **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**
31 December 2016						
Cash and balances with the U.A.E. Central Bank	1,642,905	-	-	-	-	1,642,905
Due from other banks	1,544,868	-	-	-	-	1,544,868
Loans and advances	8,808,894	-	-	-	-	8,808,894
Investment securities	-	455,177	23,130	664,879	-	1,143,186
Customers' acceptances	260,393	-	-	-	-	260,393
Investment in an associate	-	-	-	-	1,757	1,757
Property and equipment	-	-	-	-	68,124	68,124
Other assets	34,409	-	-	-	47,771	82,180
Total assets	12,291,469	455,177	23,130	664,879	117,652	13,552,307

Liabilities **31 December 2017**	**At amortised cost AED'000**	**Non-financial Instruments AED'000**	**Total AED'000**
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**
31 December 2016			
Due to other banks	70,000	-	70,000
Customers' deposits	9,012,959	-	9,012,959
Customers' acceptances	260,393	-	260,393
Other liabilities	192,437	30,384	222,821
Total liabilities	9,535,789	30,384	9,566,173

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).

Fair value of financial instruments measured at amortised cost

The fair value of the quoted debt instruments at held-to-maturity at 31 December 2017 amounted to AED 443.59 million (31 December 2016: AED 470.81 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 2016.

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 31 December 2017 AED'000	31 December 2016 AED'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
Available-for-sale financial assets						
Quoted equity securities	**661,480**	658,674	Level 1	Quoted prices in an active market.	None	N/A
Unquoted equity securities - net	**6,621**	6,205	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets were determined based on the latest available audited/historical financial information.	Net asset value	Higher the net assets, value of the investees, higher the fair value.
Financial assets at FVTPL						
Quoted equity securities	**3,497**	23,130	Level 1	Quoted prices in an active market.	None	N/A

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

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

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 II. Remedial Unit and Risk containment units are functioning to prevent accretion of non-performing assets through timely action and maximize recoveries through vigorous follow-up, classification of delinquent exposures and negotiate compromise proposals, wherever required. Note 31 summarize the 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.

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 2017, the effective interest rate on due from other banks was 1.48% (2016: 0.88%), certificate of deposits with Central Bank was 0.98% (2016: 0.40%), loans and advances was 5.31% (2016: 5.21%), investment securities at held-to-maturity was 2.26% (2016: 1.60%), customers' deposits was 0.69% (2016: 0.62%) and due to other banks was 1.17% (2016: 0.70%).

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.

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

Asset quality and ageing as on 31 December 2017

	Due from other banks AED'000	Loans and advances AED'000	Investment in 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**

Total collateral value is AED 14,725 million (2016: AED 14,799 million) against secured loans and advances of AED 7,066 million (2016: AED 6,410 million). The fair value of collateral on impaired loans is estimated to be AED 886 million (2016: AED 679 million).

Asset quality and ageing as on 31 December 2016

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

Geographical concentration of assets

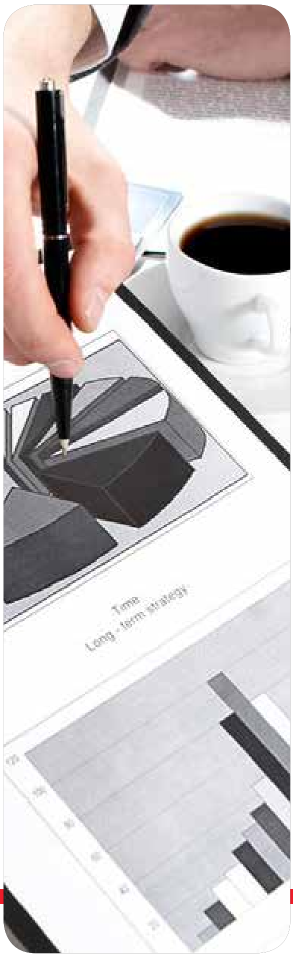
31 December 2017	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Within U.A.E.	835,118	9,369,612	1,071,634
Within GCC countries	26,740	91,825	28,419
Other countries	218,388	-	1,123
	1,080,246	**9,461,437**	**1,101,176**

31 December 2016	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Within U.A.E.	1,381,422	8,717,069	1,090,518
Within GCC countries	1,851	91,825	51,898
Other countries	161,595	-	770
	1,544,868	**8,808,894**	**1,143,186**

31 December 2017

Rated and unrated exposure Asset classes	On Balance Sheet Gross Outstanding	Off Balance Sheet Exposure after CCF	Exposure before CRM	Credit Risk Mitigation (CRM) CRM	Exposure after CRM	Risk Weighted Assets
	AED'000	AED'000	AED'000	AED'000	AED'000	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	2,006,331	-	2,006,331	**707,642**
Claims on corporates	4,378,722	1,044,243	5,404,831	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	3,051,033	21,609	3,029,424	**3,029,424**
Past due loans	669,751	45,110	364,369	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**	**17,481,595**	**2,668,290**	**14,813,303**	**11,402,811**

Total credit risk weighted assets	**11,402,811**



31 December 2016

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

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

32. Liquidity risk

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

Maturity profile

Assets

31 December 2017

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Cash and balances with the U.A.E. Central Bank	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**

31 December 2016

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

32. Liquidity risk

Maturity profile

Liabilities, equity and off balance sheet items

31 December 2017

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Due to other banks	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**

31 December 2016

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

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.

At 31 December 2017

Financial assets	Less than 3 months AED'000	From 3 months - 1 year AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
Cash and balances with the U.A.E. Central bank	200,000	1,110,000	-	732,785	2,042,785
Due from other banks	1,062,844	-	-	17,402	1,080,246
Loans and advances	6,981,780	187,818	2,275,520	16,319	9,461,437
Investment securities	-	-	429,578	671,598	1,101,176
Customers' acceptances	-	-	-	220,244	220,244
Other financial assets	-	-	-	38,468	38,468
Total	**8,244,624**	**1,297,818**	**2,705,098**	**1,696,816**	**13,944,356**
Financial liabilities					
Due to other banks	-	-	-	3,498	3,498
Customers' deposits	1,688,025	1,388,772	612,931	5,820,823	9,510,551
Customers' acceptances	-	-	-	220,244	220,244
Other financial liabilities	-	-	-	183,058	183,058
Total	**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**
At 31 December 2016					
Total financial assets	6,771,850	800,895	3,867,360	1,994,550	13,434,655
Total financial liabilities	1,044,811	1,397,182	380,123	6,713,673	9,535,789
On balance sheet interest rate sensitivity gap	5,727,039	(596,287)	3,487,237	(4,719,123)	3,898,866
Off balance sheet interest rate sensitivity gap	-	-	-	(1,656,336)	(1,656,336)
Cumulative interest rate sensitivity gap	5,727,039	(596,287)	3,487,237	(6,375,459)	2,242,530

Rate sensitivity analysis

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

- Net interest income would have increased by AED 110.99 million (2016: AED 102.56 million).
- Other equity reserves would have decreased by AED 304.81 million based on EVE analysis (2016: AED 431.03 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.

34. Currency risk

Concentration of assets and liabilities by currency:

At 31 December 2017	AED AED'000	USD AED'000	Other AED'000	Total AED'000
Financial assets				
Cash and balances with the U.A.E. Central Bank	**2,037,556**	**5,229**	**-**	**2,042,785**
Due from other banks	**715,000**	**343,387**	**21,859**	**1,080,246**
Loans and advances	**8,850,026**	**611,411**	**-**	**9,461,437**
Investment securities	**636,129**	**436,627**	**28,420**	**1,101,176**
Customers' acceptances	**220,244**	**-**	**-**	**220,244**
Other financial assets	**33,275**	**5,193**	**-**	**38,468**
Total financial assets	**12,492,230**	**1,401,847**	**50,279**	**13,944,356**
Financial liabilities				
Due to other banks	**-**	**3,498**	**-**	**3,498**
Customers' deposits	**9,479,709**	**11,483**	**19,359**	**9,510,551**
Customers' acceptances	**220,244**	**-**	**-**	**220,244**
Other financial liabilities	**183,049**	**9**	**-**	**183,058**
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**

At 31 December 2016	AED AED'000	USD AED'000	Other AED'000	Total AED'000
Total financial assets	11,981,002	1,376,813	76,840	13,434,655
Total financial liabilities	9,497,067	24,171	14,551	9,535,789
Net balance sheet position	2,483,935	1,352,642	62,289	3,898,876
Off balance sheet position	7,686,030	207,948	65,628	7,959,606

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 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)
	1,452,080	**37,255**	**(1,813)**	**1,413,212**	
Total impact if foreign currency fluctuates against AED					**+/-28,327**

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

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 132.62 million (2016: AED 132.98 million) and consolidated statement of income would have increased/decreased by AED 0.7 million (2016: 4.63 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:

	2017 AED'000	2016 AED'000
Tier 1 Capital		
Share capital	**1,848,000**	1,848,000
Statutory reserve	**1,019,266**	1,019,266
General reserve	**6,440**	6,440
Retained earnings	**1,263,040**	1,078,085
Total Tier 1	**4,136,746**	3,951,791
Tier 2 Capital		
Fair value reserve on investment securities available-for-sale	**16,591**	15,455
General reserves on unclassified loans and advances to customers	**142,535**	134,543
Total Tier 2	**159,126**	149,998
Total Regulatory Capital	**4,295,872**	4,101,789
Capital adequacy ratios		
Risk weighted assets:		
Credit risk-weighted assets	**11,402,811**	10,763,406
Market risk-weighted assets	**8,197**	62,321
Operations risk-weighted assets	**1,001,815**	1,030,472
Total risk-weighted assets	**12,412,823**	11,856,199

Capital adequacy ratio (percent)	2017 %	2016 %
Tier 1 ratio (Tier 1 capital/total risk weighted assets)	**33.33**	33.33
Tier 2 ratio (Tier 2 capital/Tier 1 capital)	**3.8**	3.8
Total capital adequacy ratio (total regulatory capital/total risk weighted assets)	**34.61**	34.6

As per UAE Central Bank Regulation for Basel III, Minimum Capital Requirement including Capital Conservation Buffer is 11.75% for the year 2017, which will increase to 12.375% and 13.0% for year 2018 and year 2019 respectively.

BASEL III Capital Ratio

The Central Bank of UAE ('CBUAE') issued Basel III capital regulations, which came into effect from 1 February 2017 (Parallel reporting for Q2'2017 and Q3'2017 and 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 2017, CCB is effective in transition arrangement and is required to be maintained at 1.25% of the capital base. For year 2018, CCB will be required at 1.875% and from year 2019 onwards; it will be required to be maintained 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 2017.

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

Capital ratio	**2017 %**	**Minimum capital requirements 2017 %**	***Minimum capital requirements by 2019 %**
Total capital ratio	**34.61**	**11.75**	**13**
Common equity Tier 1 capital ratio	**33.46**	**8.25**	**9.5**
Tier 1 capital ratio	**33.46**	**9.75**	**11**

*The minimum capital requirements by year 2019 do not include the Countercyclical Capital Buffer (CCyB).

37. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 28 February 2018.