

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

**Review report and interim financial information  
for the period from 1 January 2018 to 31 March 2018**

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## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**The Board of Directors of  
National Bank of Umm Al-Qaiwain (PSC)  
Umm Al-Qaiwain  
United Arab Emirates**

### *Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of **National Bank of Umm Al-Qaiwain (PSC) (the "Bank") and its Subsidiary (together the "Group")**, as at 31 March 2018 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, *"Interim Financial Reporting"*. Our responsibility is to express a conclusion on this interim financial information based on our review.

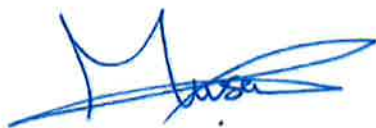
### *Scope of review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity."* A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, *"Interim Financial Reporting"*.


**Deloitte & Touche (M.E)**

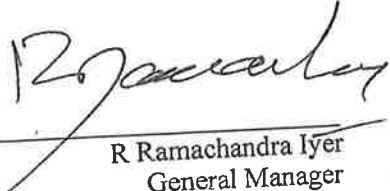


Musa Ramahi  
Registration No. 872  
2 May 2018  
Dubai  
United Arab Emirates

**Condensed consolidated statement of financial position  
at 31 March 2018**

	Notes	31 March 2018 (unaudited) AED '000	31 December 2017 (audited) AED '000
<b>Assets</b>			
Cash and balances with the U.A.E. Central Bank	4	2,044,748	2,042,785
Due from other banks	5	1,736,790	1,080,246
Loans and advances	6	9,050,653	9,461,437
Investment securities	7	1,059,758	1,101,176
Customers' acceptances		289,043	220,244
Investment in an associate		1,782	1,650
Property and equipment	8	67,815	68,550
Other assets	9	169,177	146,447
<b>Total assets</b>		<b>14,419,766</b>	<b>14,122,535</b>
<b>Liabilities</b>			
Due to other banks	10	95,312	3,498
Customers' deposits	11	9,736,250	9,510,551
Customers' acceptances		289,964	220,244
Other liabilities	12	191,817	214,628
<b>Total liabilities</b>		<b>10,313,343</b>	<b>9,948,921</b>
<b>Shareholders' equity</b>			
Share capital	13	1,848,000	1,848,000
Statutory reserve		1,019,266	1,019,266
General reserve		6,440	6,440
Cumulative change in fair values		46,867	36,868
Retained earnings		1,185,850	1,263,040
<b>Total shareholders' equity</b>		<b>4,106,423</b>	<b>4,173,614</b>
<b>Total liabilities and shareholders' equity</b>		<b>14,419,766</b>	<b>14,122,535</b>
<b>Commitments and contingencies</b>	14	<b>7,660,388</b>	<b>7,776,518</b>

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

  
R. Ramachandra Iyer  
General Manager

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

**Condensed consolidated statement of income (unaudited)  
for the period from 1 January 2018 to 31 March 2018**

		<b>Three months period ended</b>	
		<b>2018</b>	<b>31 March</b>
	<b>Notes</b>	<b>AED '000</b>	<b>2017</b>
			<b>AED '000</b>
Interest income		150,115	135,753
Income from Islamic financing products		12,379	12,045
Total interest income and income from Islamic financing products		162,494	147,798
Interest expense		(17,435)	(14,673)
Distribution to depositors – Islamic products		(90)	(125)
<b>Net interest income and income from Islamic products net of distribution to depositors</b>		<b>144,969</b>	<b>133,000</b>
Fee and commission income		10,135	12,770
Other operating income		4,653	6,089
<b>Gross income</b>		<b>159,757</b>	<b>151,859</b>
Operating expenses		(37,552)	(42,524)
<b>Operating income</b>		<b>122,205</b>	<b>109,335</b>
Investment gains		44,492	37,505
Provision for credit loss of loans and advances		(36,099)	(23,476)
Share of profits from an associate		430	29
<b>Profit for the period</b>		<b>131,028</b>	<b>123,393</b>
<b>Basic earnings per share (AED)</b>	<b>15</b>	<b>0.07</b>	<b>0.07</b>

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

**Condensed consolidated statement of comprehensive income (unaudited)  
for the period from 1 January 2018 to 31 March 2018**

	<b>Three months period ended</b>	
	<b>2018</b>	<b>31 March</b>
	<b>AED '000</b>	<b>AED '000</b>
Profit for the period	<b>131,028</b>	<b>123,393</b>
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Net fair value gain on investment securities carried at FVTOCI - equity	<b>14,410</b>	<b>-</b>
<b>Items that are or may be reclassified subsequently to profit or loss:</b>		
Net fair value gain on available for sale equity investments	<b>-</b>	<b>925</b>
Other comprehensive income for the period	<b>14,410</b>	<b>925</b>
<b>Total comprehensive income for the period</b>	<b>145,438</b>	<b>124,318</b>

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

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

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## Condensed consolidated statement of changes in equity for the period from 1 January 2018 to 31 March 2018

	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 2016 (audited)	1,848,000	1,019,266	6,440	34,343	1,078,085	3,986,134
Profit for the period	-	-	-	-	123,393	123,393
Other comprehensive income for the period	-	-	-	925	-	925
Total comprehensive income for the period	-	-	-	925	123,393	124,318
Dividend paid (see Note 16)	-	-	-	-	(184,800)	(184,800)
Balance at 31 March 2017 (unaudited)	1,848,000	1,019,266	6,440	35,268	1,016,678	3,925,652
Balance at 31 December 2017 (audited)	1,848,000	1,019,266	6,440	36,868	1,263,040	4,173,614
Impact on adoption of IFRS 9 (Note 2.1)	-	-	-	-	(27,829)	(27,829)
Transfer within equity on adoption of IFRS 9	-	-	-	(5,000)	5,000	-
Restated balance at 1 January 2018	1,848,000	1,019,266	6,440	31,868	1,240,211	4,145,785
Profit for the period	-	-	-	-	131,028	131,028
Other comprehensive income for the period	-	-	-	14,410	-	14,410
Total comprehensive income for the period	-	-	-	14,410	131,028	145,438
Transfer on disposal of investment securities carried at FVTOCI - equity	-	-	-	589	(589)	-
Dividend paid (see Note 16)	-	-	-	-	(184,800)	(184,800)
<b>Balance at 31 March 2018 (unaudited)</b>	<b>1,848,000</b>	<b>1,019,266</b>	<b>6,440</b>	<b>46,867</b>	<b>1,185,850</b>	<b>4,106,423</b>

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

**Condensed consolidated statement of cash flows (unaudited)**  
**for the period from 1 January 2018 to 31 March 2018**

	<b>Three months period ended</b>	
	<b>2018</b>	<b>31 March</b>
	<b>AED '000</b>	<b>AED '000</b>
<b>Cash flows from operating activities</b>		
Profit for the period	131,028	123,393
Adjustments for:		
Provision for credit loss	36,099	23,476
Depreciation of property and equipment	2,707	2,998
Increase in fair value of investment securities at FVTPL	(3,687)	(1,575)
Discount amortised	(24)	(38)
Loss on disposal of investment securities	24	45
Dividend income	(40,805)	(35,937)
Share of profits from an associate	(430)	(29)
Loss on disposal of property and equipment	-	170
<b>Operating cash flows before movements in working capital</b>	<b>124,912</b>	<b>112,503</b>
Increase in certificates of deposit with original maturity greater than three months	(120,000)	(250,000)
Increase in statutory deposit with the U.A.E. Central Bank	(4,226)	(20,756)
Decrease/(increase) in loans and advances	364,750	(133,111)
Increase in other assets	(3,324)	(67,809)
Increase/(decrease) in due to other banks	91,814	(70,000)
Increase in customers' deposits	225,699	410,346
Decrease in other liabilities	(33,949)	(66,093)
<b>Net cash generated from/(used in) operating activities</b>	<b>645,676</b>	<b>(84,920)</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(1,974)	(1,511)
Proceeds from disposal of property and equipment	2	5
Purchase of investment securities	(17,595)	(302)
Proceeds from sale and maturity of investment securities	74,752	45,648
Dividend received from investment securities	21,399	12,166
Dividend received from investment in an associate	298	110
<b>Net cash generated from investing activities</b>	<b>76,882</b>	<b>56,116</b>
<b>Cash flows from financing activities</b>		
Dividend paid	(184,800)	(184,800)
<b>Cash used in financing activities</b>	<b>(184,800)</b>	<b>(184,800)</b>
Net increase/(decrease) in cash and cash equivalents	537,758	(213,604)
Cash and cash equivalents at the beginning of the period	1,552,564	2,079,312
<b>Cash and cash equivalents at the end of the period (see Note 17)</b>	<b>2,090,322</b>	<b>1,865,708</b>

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



**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018**

**1. General information**

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

The Bank is engaged in providing retail and corporate banking services through a network of 16 branches and 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 IFRS applied with material effect on the condensed consolidated financial statements**

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

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

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

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

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

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

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

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount AED’000	Re-measure- ment AED’000	Impact of IFRS 9 Re-classifica- tion AED’000	New carrying amount AED’000
<b>Financial assets</b>						
<i>On balance sheet</i>						
Cash and balances with the U.A.E. Central Bank	Loans and receivables	Amortised cost	2,042,785	-	-	2,042,785
Due from other banks	Loans and receivables	Amortised cost	1,080,246	(3,477)	-	1,076,769
Loans and advances	Loans and receivables	Amortised cost	9,461,437	(9,935)	-	9,451,502
Investment securities - debt	Held-to-maturity	Amortised cost	429,578	(2,358)	-	427,220
Investment securities – equity	Available-for-sale	FVTOCI	668,101	-	-	668,101
Investment securities - equity	Held-for-trading	FVTPL	3,497	-	-	3,497
Customer acceptances	Loans and receivables	Amortised cost	220,244	(921)	-	219,323
Other liabilities	Amortised cost	Amortised cost	214,618	(11,138)*	-	203,480
			<u>14,120,506</u>	<u>(27,829)</u>	<u>-</u>	<u>14,092,677</u>

There were no changes to the classification and measurement of financial liabilities.

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

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

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

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

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

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

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

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

**2.2 New and revised IFRS applied with no material effect on the condensed consolidated financial statements**

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these condensed consolidated financial statements. The application of these revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Associates and Joint Ventures* (2011).
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration*  
The interpretation addresses foreign currency transactions or parts of transactions where:
  - there is consideration that is denominated or priced in a foreign currency;
  - the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
  - the prepayment asset or deferred income liability is non-monetary.
- Amendments to IFRS 2 *Share-Based Payment* regarding classification and measurement of share based payment transactions.
- Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contracts standard.
- Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

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

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

• *IFRS 15 Revenue from Contracts with Customers*

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

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

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

- Amendments to IFRS 15 *Revenue from Contracts with Customers* to clarify 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.

**2.3 New and revised IFRS in issue but not yet effective**

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

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

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

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

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

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

New and revised IFRS	Effective for annual periods beginning on or after
IFRS 16 <i>Leases</i>	1 January 2019
IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	
Amendments to IFRS 9 <i>Financial Instruments</i> : Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
Amendments to IAS 28 <i>Investment in Associates and Joint Ventures</i> : Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 <i>Financial Instruments</i> 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
IFRS 17 <i>Insurance Contracts</i>	1 January 2021
IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.	
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.
Management anticipates that these new standards, interpretations and amendments will be adopted in the Group’s condensed consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments may have no material impact on the condensed consolidated financial statements of the Group in the period of initial application.	

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**3. Summary of significant accounting policies**

**3.1 Basis of preparation**

These condensed consolidated financial statements are prepared in accordance with International Accounting Standard No. 34 - *Interim Financial Reporting* issued by the International Accounting Standard Board and also comply with the applicable requirements of the laws in the U.A.E.

The condensed consolidated financial statements are prepared in accordance with the historical cost basis, except for the revaluation of certain financial instruments.

The condensed consolidated financial statements are presented in U.A.E. Dirhams (AED) as that is the currency in which the majority of the Group's transactions are denominated.

These condensed consolidated financial statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the Group's annual audited consolidated financial statements as at and for the year ended 31 December 2017. In addition, results for the three months period ended 31 March 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated 12 October 2008, certain required accounting policies have been disclosed in the condensed consolidated financial statements.

**3.2 Basis of consolidation**

These condensed consolidated financial statements incorporate the financial statements of the Bank and entity controlled by the Bank. 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 condensed consolidated financial statements comprise the financial statements of the Bank and of the subsidiary as disclosed in the annual audited financial statements for the year ended 31 December 2017. The financial statements of the subsidiary are prepared for the same reporting period as that of the Bank.

**3.3 Financial risk management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the annual audited consolidated financial statements as at and for the year ended 31 December 2017.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

**3.4 Significant accounting policies introduced on adoption of IFRS 9**

**Classification of financial assets and financial liabilities**

***Financial assets***

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

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

**Classification of financial assets and financial liabilities (continued)**

***Financial liabilities***

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

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

**Business model assessment**

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

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

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



**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

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

**Classification of financial assets and financial liabilities (continued)**

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

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

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

In making the assessment, the Group considers:

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

**Reclassifications**

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

**Derecognition**

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

**Measurement of financial assets and financial liabilities**

***Investment securities***

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

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

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

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

**Measurement of financial assets and financial liabilities (continued)**

***Investment securities (continued)***

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

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

***Financial liabilities***

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

**Impairment**

***Measurement of ECL***

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

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

No impairment loss is recognised on equity investments.

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

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

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

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

**Impairment (continued)**

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

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

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

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

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

The Group employs statistical models for ECL calculations. For measuring ECL under IFRS 9, the key input would be the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from the Group's internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

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

**Impairment (continued)**

***Expected life***

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

***Credit-impaired financial assets***

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

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

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

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

***Purchased or originated credit-impaired (POCI) financial assets***

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

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

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

**Impairment (continued)**

***Restructured financial assets***

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

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

***Write-offs***

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

***Financial guarantee contracts***

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

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

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

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

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

The accounting policies of the financial instruments under IAS 39: *Financial Instruments: Recognition and Measurement* for the comparative figures disclosed in these condensed consolidated financial statements can be found in the annual financial statements of the Group for the year ended 31 December 2017.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

**3.5 Property and equipment**

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

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

**3.6 Investment in an associate**

An associate is an entity over which the Group 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 are incorporated in these condensed consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the condensed consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group 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 Group'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 condensed consolidated statement of income in the period in which the investment is acquired.

The requirements of International Financial Reporting Standards are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group'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.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

**3.7 Critical accounting estimates and judgments**

The preparation of condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Below are the critical judgments and key sources of estimation uncertainty pertaining to adoption of IFRS 9.

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

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies introduced on adoption of IFRS 9 and that have the most significant effect on the amounts recognised in financial statements:

***Business model assessment***

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

***Significant increase of credit risk***

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

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**3. Summary of significant accounting policies (continued)**

**3.7 Critical accounting estimates and judgments (continued)**

**Critical judgments in applying the Group's accounting policies (continued)**

***Establishing groups of assets with similar credit risk characteristics***

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

***Models and assumptions used***

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

**Key sources of estimation uncertainty**

The following are key estimations that the management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

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

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

***Probability of default***

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

***Loss Given Default***

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



**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**4. Cash and balances with the U.A.E. Central Bank**

	<b>31 March 2018 (unaudited) AED'000</b>	<b>31 December 2017 (audited) AED'000</b>
Balances with the U.A.E. Central Bank:		
Current account	249,169	165,473
Certificates of deposit*	1,230,000	1,310,000
Statutory deposit	464,693	460,467
	<hr/> 1,943,862	<hr/> 1,935,940
Cash in hand	100,886	106,845
	<hr/> 2,044,748	<hr/> 2,042,785

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

\* Certificates of deposit with original maturity over three months amounted to AED 1.23 billion (31 December 2017: AED 1.11 billion)

**5. Due from other banks**

	<b>31 March 2018 (unaudited) AED'000</b>	<b>31 December 2017 (audited) AED'000</b>
Term deposits	1,702,377	1,062,844
Demand deposits	37,890	17,402
	<hr/> 1,740,267	<hr/> 1,080,246
Total due from other banks	1,740,267	1,080,246
Provision for credit loss	(3,477)	-
	<hr/> 1,736,790	<hr/> 1,080,246
<b>Net due from other banks</b>	<hr/> <b>1,736,790</b>	<hr/> <b>1,080,246</b>
<b>By geographical area</b>		
Within U.A.E.	1,437,922	835,118
Within GCC	1,092	26,740
Other countries	301,253	218,388
	<hr/> 1,740,267	<hr/> 1,080,246

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**6. Loans and advances**

	<b>31 March 2018 (unaudited) AED'000</b>	<b>31 December 2017 (audited) AED'000</b>
Loans	7,516,166	7,790,011
Overdrafts	1,316,769	1,325,538
Islamic financing products	366,559	381,969
Loans against trust receipts	155,917	186,601
Other	49,829	85,125
<b>Total loans and advances</b>	<b>9,405,240</b>	<b>9,769,244</b>
Provision for credit loss	(354,587)	(307,807)
<b>Net loans and advances</b>	<b>9,050,653</b>	<b>9,461,437</b>
<b>By economic sector</b>		
Wholesale and retail trade	1,244,101	1,319,540
Real estate and construction	3,442,057	3,492,131
Personal loans and other	753,682	793,869
Manufacturing	357,009	379,026
Agriculture and allied activities	1,485	1,520
Transport and communication	222,308	227,455
Financial institutions	1,002,215	1,147,981
Services and other	2,382,383	2,407,722
	<b>9,405,240</b>	<b>9,769,244</b>
<b>By geographical area</b>		
Within U.A.E.	9,405,240	9,677,419
Within GCC	-	91,825
	<b>9,405,240</b>	<b>9,769,244</b>
<b>Provision for credit loss</b>		
Balance at the beginning of the period/year	307,807	382,185
Impact of adoption of IFRS 9 (Note 2.1)	9,935	-
Impairment allowance for the period/year	36,099	21,011
Other adjustments/(write offs) during the period/year	746	(95,389)
<b>Balance at the end of the period/year</b>	<b>354,587</b>	<b>307,807</b>

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**7. Investment securities**

Investment securities comprise the following:

	<b>31 March 2018 (unaudited) AED '000</b>	<b>31 December 2017 (audited) AED '000</b>
<b>Securities at FVTPL</b>		
Quoted equity securities	24,364	-
Discretionary funds managed by third parties – quoted equity securities	246	-
<b>Securities at FVTPL – held for trading</b>		
Quoted equity securities	-	3,251
Discretionary funds managed by third parties – quoted equity securities	-	246
	<b>24,610</b>	<b>3,497</b>
<b>Securities at FVTOCI</b>		
Quoted equity securities	674,575	-
Unquoted equity securities	6,789	-
<b>Securities available-for-sale</b>		
Quoted equity securities	-	661,480
Unquoted equity securities	-	6,621
	<b>681,364</b>	<b>668,101</b>
<b>Securities at amortised cost</b>		
Quoted debt instruments	356,142	-
<b>Securities held-to-maturity</b>		
Quoted debt instruments	-	429,578
<b>Total investment securities</b>	<b>1,062,116</b>	<b>1,101,176</b>
Provision for credit loss	(2,358)	-
<b>Net investment securities</b>	<b>1,059,758</b>	<b>1,101,176</b>
<b>By geographical area</b>		
Within U.A.E.	1,027,858	1,071,634
Within GCC	33,106	28,419
Other countries	1,152	1,123
	<b>1,062,116</b>	<b>1,101,176</b>

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**8. Property and equipment**

	<b>31 March 2018 (unaudited) AED'000</b>	<b>31 December 2017 (audited) AED'000</b>
Cost	246,131	245,153
Accumulated depreciation	(178,316)	(176,603)
Carrying amount	<u>67,815</u>	<u>68,550</u>

Property and equipment at the period end are located in the U.A.E. and mainly comprise buildings with a carrying amount of AED 14.5 million (31 December 2017: AED 15.4 million) and land amounting to AED 22.9 million. Buildings are depreciated over a period of 20 years.

**9. Other assets**

	<b>31 March 2018 (unaudited) AED'000</b>	<b>31 December 2017 (audited) AED'000</b>
Inventory*	71,477	71,477
Interest receivable	49,138	38,468
Prepayments and deposits	23,268	32,049
Other	25,294	4,453
	<u>169,177</u>	<u>146,447</u>

\*Inventory represents property acquired in the settlement of debt.

**10. Due to other banks**

	<b>31 March 2018 (unaudited) AED'000</b>	<b>31 December 2017 (audited) AED'000</b>
Demand deposits	<u>95,312</u>	<u>3,498</u>

Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)

10. Due to other banks (continued)

	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
<b>By geographical area</b>		
Within U.A.E.	95,000	-
Outside U.A.E.	312	3,498
	<u>95,312</u>	<u>3,498</u>

11. Customers' deposits

	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
Time deposits	7,275,027	7,071,552
Savings deposits	215,822	217,162
Current accounts	2,095,895	2,072,877
Margin deposits	66,967	65,080
Islamic customers' deposits	82,539	83,880
	<u>9,736,250</u>	<u>9,510,551</u>

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

12. Other liabilities

	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
Accounts payable	30,330	35,508
Interest payable	32,578	32,712
Provision for employees' end of service benefits	30,098	30,268
Other staff benefits	2,479	1,302
Dividend payable	11,596	11,596
Provision for expected credit loss on contingent assets	11,138	-
Other	73,598	103,242
	<u>191,817</u>	<u>214,628</u>

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**13. Share capital**

	<b>31 March 2018 (unaudited) AED'000</b>	31 December 2017 (audited) AED'000
Issued and fully paid:		
1,848 million ordinary shares of AED 1 each	<b>1,848,000</b>	1,848,000

**14. Commitments and contingencies**

	<b>31 March 2018 (unaudited) AED'000</b>	31 December 2017 (audited) AED'000
Guarantees	<b>5,791,300</b>	5,910,964
Letters of credit	<b>102,742</b>	112,398
Commitments to extend credit	<b>1,612,027</b>	1,727,944
Other	<b>154,319</b>	25,212
	<b>7,660,388</b>	7,776,518
<b>By geographical area</b>		
Within the U.A.E.	<b>7,607,771</b>	7,713,443
Outside the U.A.E.	<b>52,617</b>	63,075
	<b>7,660,388</b>	7,776,518

At 31 March 2018, the Group has capital commitments of AED 3.13 million (31 December 2017: AED 2.14 million).

The provision for expected credit loss against the off-balance sheet items disclosed above amounting to AED 11.14 million (31 December 2017: Nil) is classified under other liabilities (Note 12).

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**15. 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 period.

	<b>Three months period ended</b>	
	<b>2018</b>	<b>31 March</b>
	<b>(unaudited)</b>	<b>2017</b>
		<b>(unaudited)</b>
Profit for the period (in AED'000)	<b>131,028</b>	123,393
Weighted average number of shares ('000)	<b>1,848,000</b>	1,848,000
Basic earnings per share (in AED)	<b>0.07</b>	0.07

There were no potential dilutive shares as at 31 March 2018 and 31 March 2017.

**16. Dividends**

At the Annual General Meeting held on 18 March 2018, the Shareholders approved dividend of 10% amounting to AED 184.8 million in respect of the year ended 31 December 2017 (2016: AED 184.8 million).

**17. Cash and cash equivalents**

	<b>31 March</b>	<b>31 March</b>
	<b>2018</b>	<b>2017</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>AED'000</b>	<b>AED'000</b>
Cash and balances with the U.A.E. Central Bank	<b>2,044,748</b>	1,903,436
Due from other banks	<b>1,740,267</b>	1,341,489
Statutory deposit	<b>(464,693)</b>	(429,217)
Certificate of deposits with original maturity over 3 months	<b>(1,230,000)</b>	(950,000)
	<b>2,090,322</b>	1,865,708

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**18. 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, 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 period, the Group entered into the following significant transactions with related parties in the ordinary course of business.

	<b>Three months period ended</b>	
	<b>2018</b>	<b>31 March</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>AED'000</b>	<b>AED'000</b>
Interest income	2,482	6,461
Interest expense	9,265	7,668
Remuneration of key management personnel	1,536	1,512
Other income	240	367
Directors' fees	750	475

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

	<b>31 March</b>	<b>31 December</b>
	<b>2018</b>	<b>2017</b>
	<b>(unaudited)</b>	<b>(audited)</b>
	<b>AED'000</b>	<b>AED'000</b>
Loans and advances	313,665	414,702
Customers' deposits	1,623,439	1,586,872
Irrevocable commitments and contingent liabilities	851,118	831,549

**19. 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 condensed consolidated statement of financial position items.



**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**19. Business segments (continued)**

**Primary segment information**

	<b>Retail and corporate banking AED' 000</b>	<b>Treasury and investments AED' 000</b>	<b>Unallocated AED '000</b>	<b>Total AED' 000</b>
<b>Three months period ended 31 March 2018 (unaudited)</b>				
Gross income	137,188	18,335	4,234	159,757
Segment result	91,506	62,864	(23,342)	131,028
<b>Three months period ended 31 March 2017 (unaudited)</b>				
Gross income	132,813	15,236	3,810	151,859
Segment result	102,954	52,254	(31,815)	123,393
<b>As at 31 March 2018 (unaudited)</b>				
Segment assets	8,875,355	5,457,156	87,255	14,419,766
Segment liabilities	10,037,103	264,261	11,979	10,313,343
<b>As at 31 December 2017 (audited)</b>				
Segment assets	9,109,696	4,944,235	68,604	14,122,535
Segment liabilities	9,731,244	206,081	11,596	9,948,921

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**20. 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 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 carried at amortised cost*

The fair value of the quoted debt instruments at 31 March 2018 amounted to AED 367.159 million (31 December 2017: AED 443.59 million). The fair value determination of the quoted debt instruments will fall under level 1 category wherein fair value is determined based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Except as detailed above, the management considers that the carrying amounts of financial assets and liabilities measured at amortised cost in the condensed 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 in the audited annual consolidated financial statements for the year ended 31 December 2017.

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

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	31 March 2018	31 December 2017				
	AED '000 (unaudited)	AED '000 (audited)				
<b>Financial assets at FVTPL</b>						
Quoted equity securities	24,610	3,497	Level 1	Quoted prices in an active market.	None	N/A

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2018 to 31 March 2018 (continued)**

**20. Fair value measurements (continued)**

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)				
<b>Financial assets at FVTOCI</b>						
Quoted equity securities	674,575	661,480	Level 1	Quoted prices in an active market.	None	N/A
Unquoted equity securities	6,789	6,621	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets were determined based on the latest available audited/historical financial information.	Net asset value	Higher the net assets, value of the investees, higher the fair value.

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

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

**21. Seasonality of results**

Investment gains includes dividend income of AED 41 million for the three months period ended 31 March 2018 (31 March 2017: AED 36 million), which is of a seasonal nature.

**22. Approval of condensed consolidated financial statements**

The condensed consolidated financial statements were approved and authorised for issue on 2 May 2018.