



بنك الشارقة  
Bank of Sharjah

"The best view comes after the hardest climb"



ANNUAL  
REPORT

2017





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# ANNUAL REPORT

2017





H.H. Sheikh Khalifa bin Zayed Al Nahyan  
President of the United Arab Emirates





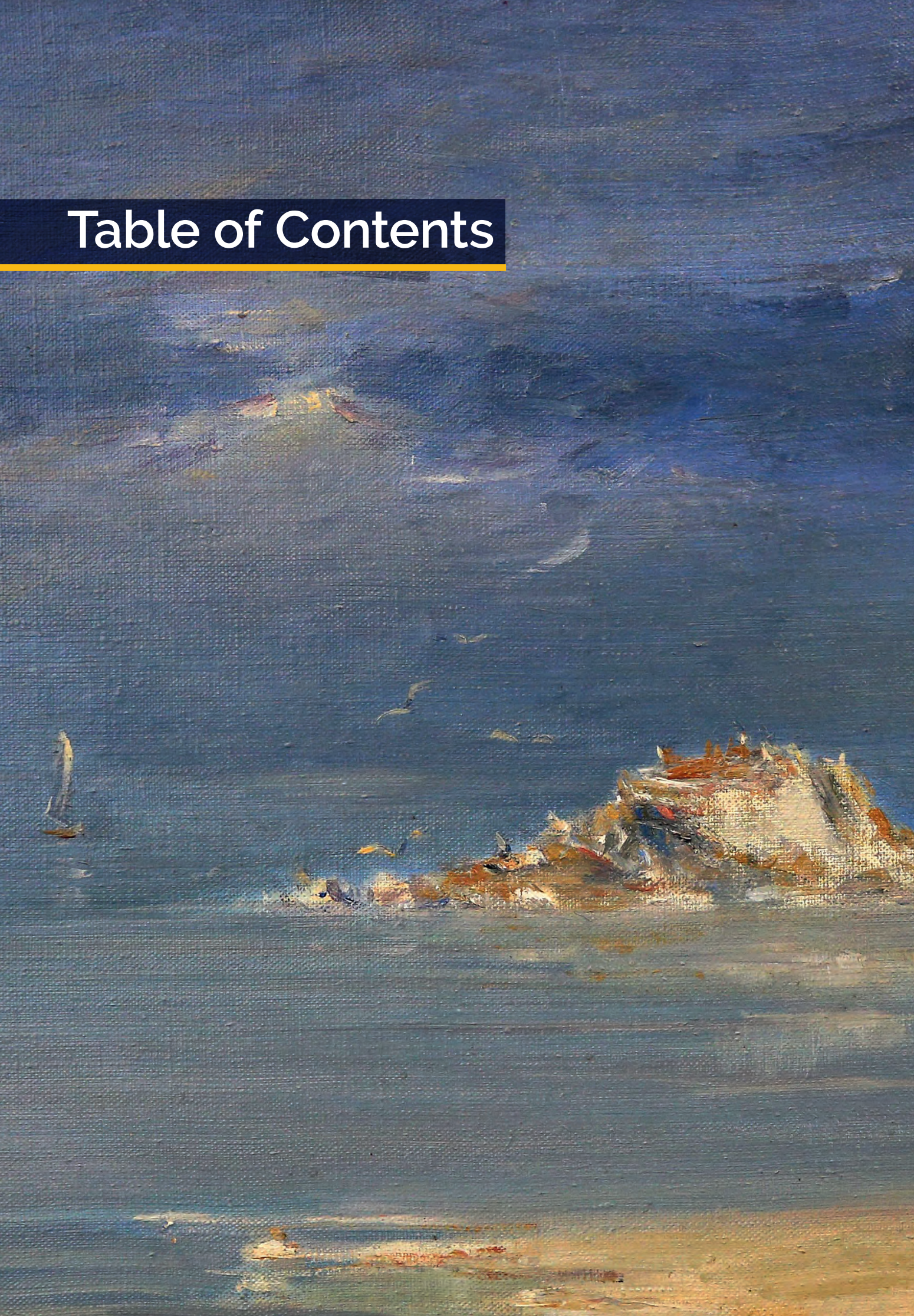
**H.H. Sheikh Mohammed bin Rashid Al Maktoum**  
Vice President and Prime Minister of the  
United Arab Emirates and Ruler of Dubai



**H.H. Dr. Sheikh Sultan bin Muhammad Al Qasimi**  
Member of the Supreme Council,  
Ruler of Sharjah and its Dependencies



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\*All artworks featured in the annual report are part of Bank of Sharjah's private collection.



# Board of Directors







**HONORARY CHAIRMAN**

H.H. Dr. Sheikh Sultan bin Muhammad Al Qasimi



**CHAIRMAN**

Mr. Ahmed Abdalla Al Noman



**VICE CHAIRMAN**

Sheikh Mohammed bin Saud Al Qasimi



Sheikh Saif bin Mohammed  
bin Butti Al Hamed



H.E. Humaid Nasser Al Owais



Mr. Abdul Aziz Hassan Al Midfa



Mr. Salem Al Ghammai



Mr. Abdul Aziz Mubarak Al Hasawi



Mr. Saud Al Besharah



Mr. Francois Dauge



Secretary to the Board  
and General Manager  
Mr. Varouj Nerguizian





# Chairman's Speech



**Dear Valued Shareholders,**

On behalf of the members of the Board of Directors of Bank of Sharjah, I would like to welcome you to the General Assembly No. 44, and I would like to convey to you our profound appreciation for your support and your confidence in our national establishment.

I take this opportunity to extend on your behalf and on behalf of the Directors, our sincere appreciation and respect to H.H. Sheikh Khalifa bin Zayed Al Nahyan, UAE President, & H.H. Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, & H.H. Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the Armed Forces, H.H. Dr. Sheikh Sultan bin Muhammad Al Qasimi, Ruler of Sharjah, and Their Highnesses the Rulers Members of the Supreme Council for their wisdom in leading our country towards prosperity and development.

The year 2017 was stormy across the globe, dominated by turning point events on both political and economic levels.

It was a challenging year regionally and in the GCC in particular. The ongoing conflict in Yemen and the escalating standoff with Qatar are leaving fears of long-term consequences on the economy of the Gulf region and in the politics of the wider Middle East.

Despite the global events, the UAE continued firmly on course to being one of the best performers in the Mena region. A partial recovery in oil prices coupled with an ongoing all-out diversification drive and the landmark tax reform will only help the UAE economy to gain increased momentum in 2018; however, fears of inflationary pressures due to the introduction of VAT have not been properly assessed yet.

**Dear Shareholders,**

Your Bank recorded a commendable performance in 2017. Total Assets grew by 13%, crossing the AED 30 billion mark to reach AED 30.5 billion.

While net loans and Advances grew by 2%, to AED 17.5 billion, Customers' Deposits jumped by 10% to AED 21.6 billion, reflecting the well-established confidence in your financial institution. Our Capital Adequacy Ratio stood at 19.33%.

With the Loans to Deposit Ratio at 81%, Bank of Sharjah maintained high levels of liquidity, reaching AED 7.9 billion, an increase of 42%, as compared to the preceding year.

Net operating income increased by 3% to AED 780 million. Last minute additional provision requirements for AED 300 million led to a retraction in our profitability to AED 265 million. As a result, the Bank stands well provisioned against loan losses with a conservative loan loss coverage ratio of 140%.

**Dear Valued Shareholders,**

No profit distribution will be proposed by the Board of Directors for 2017, in order to maintain and consolidate the total equity, which stood at AED 4.1 billion, in anticipation of the implementation of IFRS9 starting 2018.

**Dear Shareholders,**

I take this opportunity to extend on your behalf to H.H. Dr. Sheikh Sultan bin Muhammad Al Qasimi, Supreme Council Member and Ruler of Sharjah, our Honorary Chairman, our sincere gratitude and recognition for his patronage and continued support.


Our appreciation goes as well to the Monetary Authorities. I would also thank all our customers and correspondents all over the world for their confidence in our national institution.

I would like to extend my recognition and appreciation to the Bank's Management and staff for their vigorous efforts and devotion to their work.

Finally, it is my honour to present to you the Board of Directors' report for the year 2017.

**AHMED ABDALLA AL NOMAN**  
Chairman



The background of the slide is an abstract, textured composition of various colors and brushstrokes. It features a mix of reds, oranges, yellows, and some darker tones, creating a sense of movement and depth. The strokes are layered and overlapping, giving it a painterly, almost chaotic feel.

# Board of Directors' Report to the General Assembly



Marked by conflicts, terrorism, and natural disasters, 2017 was a stormy year dominated by major turning point events across the globe from the controversial policies of the newly elected US President Donald Trump, to the terrorist attacks in major cities, and the upcoming exit of the UK from the European Union (Brexit). In addition to the erupting turmoil in Iran, the ongoing wars in Syria and Yemen, and the crisis that led to the severing of ties between Qatar, Saudi Arabia, the UAE, Bahrain and Egypt.

In the United States, 2017 marked President Donald Trump's first year in the White House. Mr. Trump quickly made his mark with his controversial style, starting his presidency with major internal battles, multiple attempts at implementing a travel ban, an on-going Russian investigation, and threats of withdrawal from the Paris Climate Accord. Mr. Trump made a historically shocking announcement at the end of 2016, by declaring on December 6<sup>th</sup> that the US recognised Jerusalem as the capital of Israel, in a statement that reversed decades of official United States foreign policy.

Internally, the US witnessed the worst and deadliest mass shooting in its modern history in Las Vegas, as well as an attack in rural Texas that left dozens dead in November. Devastating natural disasters included hurricanes ravaging Texas, Florida, Puerto Rico and other Caribbean Islands within a four-week span.

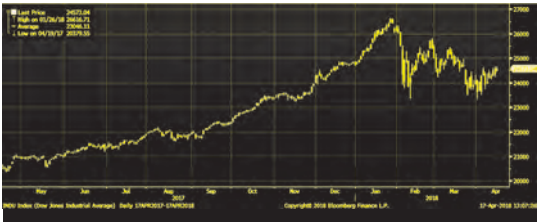
Across the Pacific, tensions between North Korea and the US were significant after Pyongyang stepped up its nuclear activities and ballistic missile threats against not only South Korea and Japan, but also the United States, as evidenced by the launch of its first transcontinental missile and testing of a hydrogen bomb that could potentially reach the US mainland.

Financially, the markets shrugged off the increasingly bizarre nature and behavior of the Trump White House, which has been marked by increased trade protectionist sentiments, sharply increased geopolitical tensions, massive increases in government leverage and margin debt, and the ongoing reversal of Quantitative Easing. The Trump Tax plan helped push Wall Street to finish one of its best years since 2013.

**DOW JONES INDUSTRIAL**

In 2017, the Dow Jones continued to benefit from

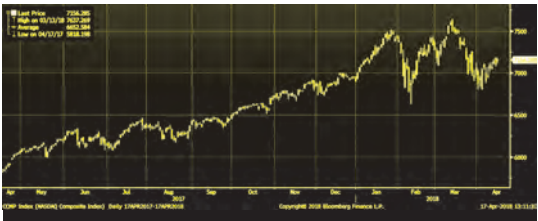
the 'Trump Bump' effect as the market rallied in anticipation of US tax cuts and infrastructure spending. The market was supported throughout the year by continued very low interest rates, low inflation, strong employment, moderate economic growth, and soothing commentary from the Fed on the likely gradual path of future interest rate increases.



**NASDAQ**

The NASDAQ exhibited a similar performance, powered by the same factors as the Dow.

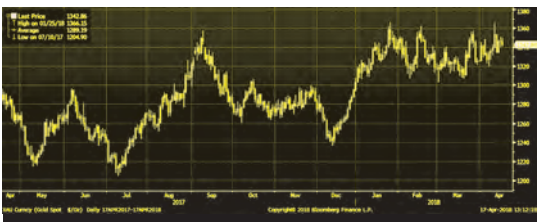
The divergence from the US performance exhibited by European equity markets since April is striking, although Asian markets, particularly in China, have been much more correlated with the US and Japan since October.



**GOLD**

In 2017, Gold reversed losses suffered in response to US Dollar strength in 2016, as the US currency weakened against most other currencies during 2017.

The price of Gold was also supported by rising geopolitical tensions on the Korean peninsula and in the Middle East, and by the perception of some investors that the eras of ultra-low interest rates and inflation was ending.





Bitcoin, despite all warnings by regulators and financial advisors about an imminent collapse in its pricing against other currencies, witnessed a dramatic surge in value. The high-headed behavior of the US administration to slap sanctions will push major US banks to further de-risk; this will induce willingly or unwillingly the creation of new payment mediums, ultimately weakening the supremacy of the US Dollar and its global role. As to the global financial system with regards to the introduction of Blockchain technology, disruption is coming and the whole lucrative payment system of the banking industry will switch to new players. The World Economic Forum considers that 10% of Global GDP could be recorded by Blockchain by 2027.

In Europe, Catalans voted in a referendum in favor of a split of the Catalonia region, an economic powerhouse, from the rest of Spain; the Spanish government moved promptly to suspend the referendum results and organized new elections under its direct supervision. It is a political story with an economic twist; what became known as a possible "Catalexit" left fears from the impacts on the economy for the entire EU that could have proportionally exceeded those of Brexit. Meanwhile in Britain, the Brexit countdown has started, and the government of Prime Minister Theresa May announced that it was heading in steady steps to full and final separation in 2019 amidst concerns that other European countries may follow, a direction that could dismantle the European Union.

In 2017, new leaders were elected, with Mr. Emmanuel Macron becoming the youngest French President. Mrs. Angela Merkel was once more re-elected in Germany as Chancellor for a fourth consecutive term.

Europe in 2017 suffered a series of terrorist attacks striking the heart of cities from Barcelona to Stockholm and the UK; Britain suffered the highest number of attacks since 1992, notably in Manchester.

Regionally, in Iraq and Syria, ISIS was driven out of key cities and villages such as Mosul and Raqqa, paving the path for new compromises and potential changes from the current unstable situation. Kurds in Iraq failed to achieve their dream for separation following the Kurdish Independence referendum after the results were denied by the USA, Iran, Turkey, the Iraqi government, and many other countries. President Erdogan in Turkey

gained more power than ever through his win in the Turkish Constitutional referendum.

Iranians took to the streets by the end of December, in a series of protests against the economic policies of the government, human rights issues, and corruption. However, their scope has expanded throughout the country to include political opposition to the regime and its longtime Supreme Leader Ali Khamenei. The Revolutionary Guard interfered to block the street movement, leaving behind a number of casualties, presenting a serious challenge to the government of President Hassan Rouhani, who was re-elected in May 2017 on promises to revitalize the economy.

In December 2017, Lebanon's Prime Minister Saad Hariri revoked his unprecedented resignation after the Lebanese Government agreed to commit to a policy of dissociation from regional conflicts. The decision came after a month of political turmoil for Lebanon when Mr. Hariri resigned from his post in an announcement made from Saudi Arabia that caused international speculation. Lebanon's Central Bank ensured the stability of the monetary and financial markets with its prudent policies and foreign currency reserves.

2017 was a challenging year for the GCC. The Saudi and Emirati- led coalition seized an opportunity to unite a broader coalition of Yemeni parties against the Al Houthi movement In Yemen in the wake of the assassination of former President Ali Abdullah Saleh in December. The expanded military coalition renewed campaigns on multiple key fronts in Yemen against the Al Houthi positions and has isolated the movement politically. The latter responded by firing a ballistic missile at Riyadh on December 19<sup>th</sup> 2017 to test Saudi and US responses. Iran was accused of violating UN Security Council resolutions by transferring ballistic missile capabilities to Yemen's Houthi movement.

Since June 2017, the ongoing feud between Qatar and its neighbors, notably the Kingdom of Saudi Arabia, the UAE, Bahrain, and Egypt, is leaving heavy impacts on both the economy and trade in the region. Accusations of financing terrorism and harboring extremist groups and allying with the Gulf Arab states' arch-foe Iran, charges that Qatar denies, led to a full blockade of all diplomatic, trade, and transport ties between four of the most powerful states in the Arab world and Qatar.



**BIT-COIN**

Despite all warnings by regulators and financial advisors about an imminent collapse in its pricing against fiat currencies, witnessed a dramatic surge in value.



The dispute has gone deeper after Doha refused to comply with 13 wide-ranging demands. Qatar has injected about US\$ 38.5bn into its economy and deposited billions of dollars in its local banks to cushion against the impact of the embargo. How the Qatari crisis will end remains unclear.

In Saudi Arabia, King Salman bin Abdul Aziz bin Saud announced major reform measures and counter corruption actions. The King appointed his son Prince Mohammad bin Salman as Crown Prince in place of Prince Mohammed bin Nayef. Nearly 50 dignitaries and members of the royal family were placed under arrest in Riyadh's Ritz-Carlton hotel. The Crown Prince's agenda is synchronizing with a more cosmopolitan global capitalism that appeals to international investors and more diversified tourism, with a sweeping Vision 2030 plan to reduce Saudi Arabia's near total dependence on oil.

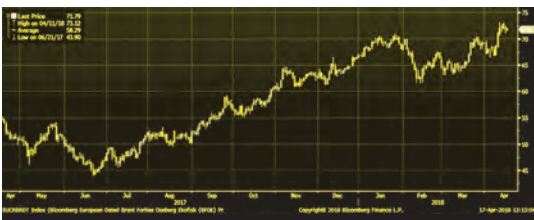
OIL (BRENT CRUDE)

OPEC announced that it was near its goal of rebalancing the oil market as its output limitations continue to shrink. That in fact is a sign that OPEC and its partners including Russia are progressing in their efforts to end an oversupply that has weighed on prices and impacted their economies since 2014. In early 2017 the oil price initially maintained gains achieved in 2016 to the mid-\$50s level on OPEC's decision to cut production. Thereafter, a combination of threats to supply in the immediate aftermath of the Kurdish independence referendum, political events in Saudi Arabia, rising tension between the GCC and Iran, and the extension of OPEC production cuts into 2018 drove the price of oil higher still to its current level of \$68 per barrel.



OIL

The extension of OPEC production cuts into 2018 drove the price of oil higher still to its current level of \$68 per barrel.

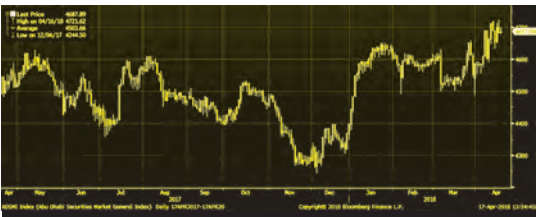


ABU DHABI SECURITIES MARKET GENERAL INDEX

The UAE stock market was affected by the oil price decline during the first quarter of 2017. The Abu Dhabi Stock Exchange's (ADX) total value of transactions during 2017 amounted to AED 48 billion (\$13 billion) and over 28 billion shares traded, an average of 112 equities per day. The ADX listed

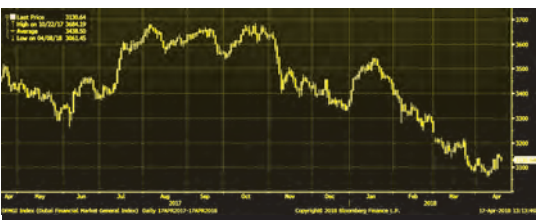
companies' market capitalisation went up 2.1% in 2017 from AED 475 billion to AED 485 billion. Market caps on listed domestic firms rose to AED 457 billion, a 2.93% increase from 2016's AED 444 billion.

The Abu Dhabi Securities Exchange General Index closed at 4,398 points at the end of 2017, a 3.25% decrease from its 2016 level.



DUBAI FINANCIAL MARKETS GENERAL INDEX

The Dubai market exhibited a very different pattern. The Index sold off in response to the oil price decline between February and June, and as a result of the GCC/Qatari diplomatic and economic rift. In the third quarter, a strong rise in the oil price and the positive international equity market backdrop enabled the Index to recover losses. However, the political events in Saudi Arabia in November resulted in a sharp selloff into the year-end: foreign investors reportedly sold heavily across the region, but the UAE markets did not have the benefit of the strong state entity buying observed in the Saudi equity market.



Locally, during a session held at the Sharjah International Book Fair, the UAE Cabinet approved a record AED 51.4 billion federal budget for the year 2018, within the five-year plan (2017-2021) budget of AED 201.1 billion, an increase of 5.6%. The lion's share of next year's budget, AED 26.3 billion or 51.2%, is dedicated to social development programmes. AED 10.4 billion is allocated to general education and higher education, totaling 20.2% of the overall budget, AED 4.5 billion or 8.8%, is earmarked for the health sector, AED 22.1 billion has been allocated for government affairs, and AED 3.5 billion will go to federal projects implemented by federal agencies.



At the level of the UAE economy, internal liquidity has improved, reducing the pressure on deposit rates; which will come into effect starting 1<sup>st</sup> January 2018, access to banking finance will be subdued and a revival of the nascent Capital Market activity is expected to gain momentum.

The UAE stepped up in the space race with the announcement by the Mohammed bin Rashid Space Center (MBRSC) in November that the first satellite locally built solely by Emirati engineers, KhalifaSat, had passed its solar panel deployment test. The KhalifaSat, scheduled to be deployed into space in 2018, is the third to be launched by the MBRSC. His Highness Sheikh Mohammed bin Rashid Al Maktoum launched the UAE's first Astronaut Program to select and train four Emirati Astronauts on various space missions with the aim of heading to the International Space Station in the next five years on the UAE's first ever space mission.

In 2017, businesses in the UAE ensured their infrastructure readiness for the introduction, in 2018, of VAT. Headline inflation averaged 2.7% in 2017, up from 1.8% in 2016, boosted by utility and fuel price hikes. The 5% VAT could add further 2 to 3 % to inflation in 2018.

The number of passengers through the country's airports in 2017 reached 126.5 million, an increase of 1.8% compared with 124.3 million passengers in 2016.

Abu Dhabi announced that the construction of Unit 1 of the Barakah plant, the first nuclear reactor of the UAE, was completed in May 2017. According to the Emirates Nuclear Energy Corporation (ENEC), the plant's operation will only begin next year to ensure sufficient time for international assessments and adherence to nuclear industry safety standards, as well as a reinforcement of operational proficiency for plant personnel.

Abu Dhabi stepped up with an exciting new development in the cultural history of the region with the opening of the Louvre Abu Dhabi in November. The long awaited innovative architectural design by famous French architect Jean Nouvel became the jewel of the touristic Saadiyat Island, Abu Dhabi's cultural centre, adding vigour to the Emirate's tourism efforts.

In Dubai, the Government unveiled an AED 56.6 billion budget for 2018 with a focus on infrastructure projects led by Expo 2020 and social development programs to create more than 3,100 jobs next year. The largest-ever budget in Dubai's history with a 19.5% increase in overall spending, expects a 12% rise in public revenues to AED 50.4 billion.

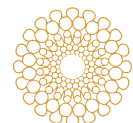
About 53 million passengers traveled through Dubai ports in 2017, according to a report issued by the General Directorate of Residency and Foreigners Affairs. Nearly 50 million people used Dubai International Airport, an increase of 6.6% from 2016, making it one of the busiest airports in the world. Another 2.5 million traveled through land ports and almost half a million through seaports.

Dubai launched its 'Dubai Blockchain Strategy' as a powerful tool that will usher in economic opportunity for all sectors in the city, and cement Dubai's reputation as a global technology leader in the smart economy. The Dubai Land Department was the first government entity to adopt Blockchain technology, followed by the Immigration Department and the DEWA Blockchain initiative launched by Sheikh Hamdan in support of Dubai's digital transformation.

In Sharjah, H.H. Dr. Sheikh Sultan bin Muhammad Al Qasimi approved the general budget of AED 22.1 billion for the fiscal year 2018, a 6% growth over the budget of 2017. The general budget aims to achieve the Government's strategic priorities, through the adoption of many goals and indicators in economic, social, scientific, and cultural fields.

The 36<sup>th</sup> Sharjah International Book Fair was inaugurated by H.H. Dr. Sheikh Sultan bin Muhammad Al Qasimi under the theme 'A World in My Book', and attended by 1,650 publishers from over 60 countries. His Highness launched the Sharjah Publishing City as an embodiment of his vision of over four decades, affirming that the book is the medium that brings together the cultures of the world and opens new windows for dialogue between different countries.

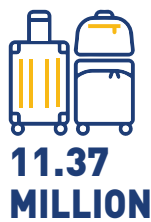
H.H. Dr. Sheikh Sultan bin Muhammad Al Qasimi, granted over 564 scholarships at the University of Sharjah and the American University of Sharjah, in line with his ongoing interest in supporting the university education process and alleviating the burden on students' families.



**AED  
56.6  
BN**

The budget for 2018 with a focus on infrastructure projects led by Expo 2020.





Sharjah International Airport achieved significant growth in passenger traffic in 2017 with 11.37 million passengers.

In line with the aspirations of H.H. Dr. Sheikh Sultan bin Muhammad Al Qasimi to protect the environment and to create a sustainable eco-tourism platform, the Government of Sharjah adopted a plan to transform 15% of the Emirate's landscape into natural reserves through executing a wide range of projects.

A Memorandum of Understanding has been signed between the Dubai Financial Market and Shorouq to work together to facilitate the use of the services provided by the Dubai Financial Market by private and family-owned companies based in Sharjah.

H.H. Dr. Sheikh Sultan bin Muhammad Al Qasimi attended the launch of one of the largest real estate projects in Sharjah, the \$6.5 billion Aljada project by ARADA, announcing the emergence of a new trend in Sharjah real estate sector. Arada, a new entity formed in 2017 as a partnership between Basma Group and KBW Investments, has recently announced that Aljada project would contain a 500,000sqm business park and as such aim at attracting large businesses to set up their operations in Sharjah.

The Emirate of Sharjah signed a contract with Canada to help build a hospital for AED 1 billion. A five year renewable agreement strengthens the cooperation between both parties to advance the Emirate's medical services in line

with Sharjah's vision to develop and maintain world-class levels of healthcare.

Sharjah International Airport achieved significant growth in passenger traffic in 2017 with 11.37 million passengers and aircraft traffic of 75.96 thousand, while air cargo sector registered 148.31 thousand tons. These positive results reflect the outstanding position of Sharjah International Airport and the continuous efforts exerted by the authorities in managing the airport under the directives of H.H. Dr. Sheikh Sultan bin Muhammad Al Qasimi.

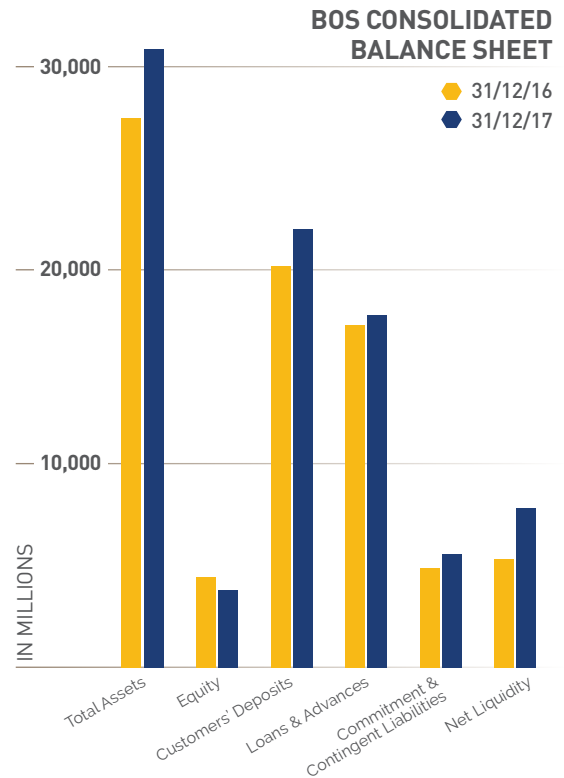
The year 2017 was characterized by many cultural, academic and scientific activities that complement the outstanding efforts of H.H. Dr. Sheikh Sultan bin Muhammad Al Qasimi to promote and support education and knowledge in the region. Sharjah was chosen as the World Book Capital of 2019 by The International Committee of the World Book Writers in the United Nations Educational, Scientific and Cultural Organization in recognition of its prominent role in supporting the book and promoting the culture of reading, thus marking Sharjah the first city in the Gulf to be awarded the title and the third in the Arab world and Middle East.

Sharjah continues to strive toward a dynamic economy as demonstrated by the Emirate's many achievements in 2017. Sharjah's deep commitment to education and culture has helped solidify the Emirate's role in an increasingly changing world. 🌍



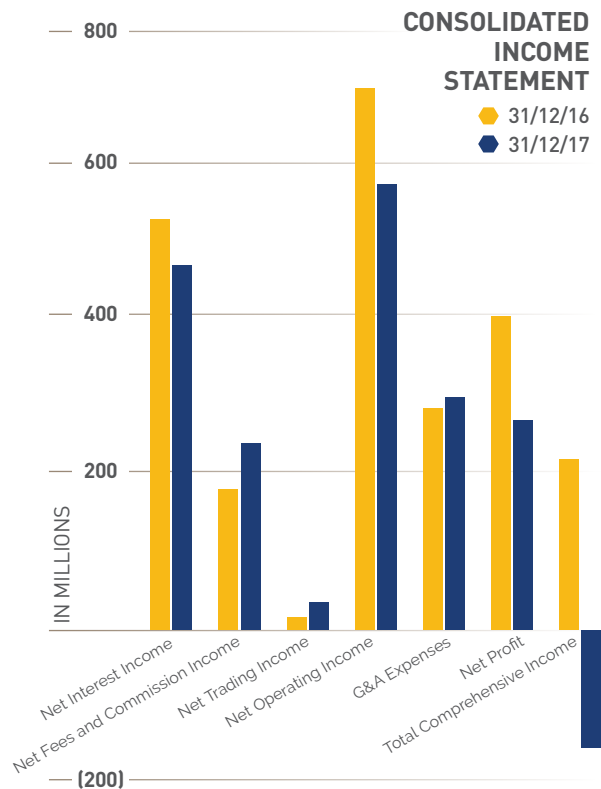
BANK'S ACTIVITIES, SUBSIDIARIES  
& EMIRATES LEBANON BANK

- ▶ **Total Assets** reached AED 30,511 million as at 31/12/2017, against AED 27,097 million as at 31/12/2016, **up by 13%**.
- ▶ **Total Liabilities** reached AED 26,443 million as at 31/12/2017, against AED 22,497 million as at 31/12/2016, **up by 18%**.
- ▶ **Total Equity** reached AED 4,068 million as at 31/12/2017 against AED 4,600 million as at 31/12/2016, **down by 12%**.
- ▶ **Total Customers' Deposits** reached AED 21,630 million as at 31/12/2017, compared to AED 19,737 million as at 31/12/2016, **up by 10%**.
- ▶ **Total Loans and Advances** reached AED 17,476 million as at 31/12/2017, compared to AED 17,075 million as at 31/12/2016, **up by 2%**.
- ▶ **Total Off-Balance Sheet** reached AED 5,630 million as at 31/12/2017, against AED 5,099 million as at 31/12/2016, **up by 10%**.
- ▶ **Net Liquidity** reached AED 7,872 million as at 31/12/2017, against AED 5,542 million as at 31/12/2016, **up by 42%**.

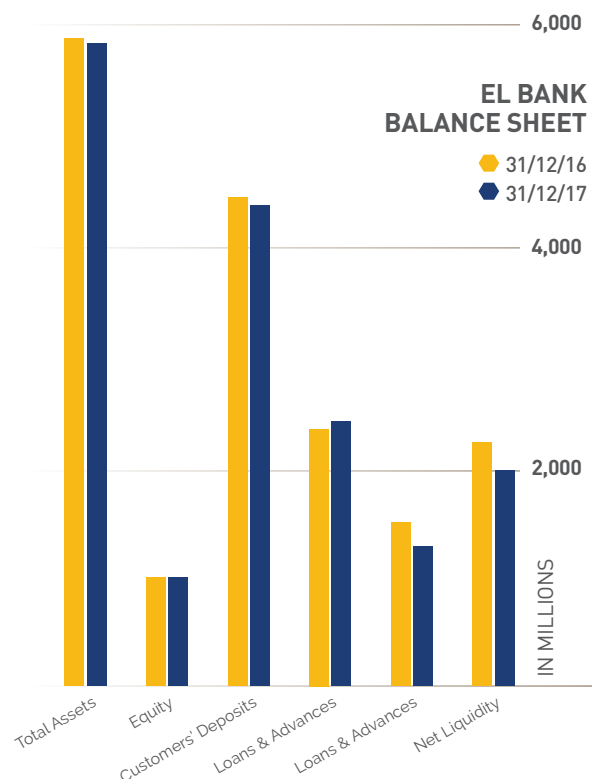


INCOME STATEMENT

- ▶ **Net interest income** reached AED 466 million for the year ended 31/12/2017 versus AED 522 million for the year ended 31/12/2016, **down by 11%**.
- ▶ **Net operating income** reached AED 569 million for the year ended 31/12/2017, against AED 695 million for the year ended 31/12/2016, **down by 18%**.
- ▶ **Net profit for the year** reached AED 265 million for the year ended 31/12/2017, against AED 402 million for the year ended 31/12/2016, **down by 34%**.
- ▶ **Total comprehensive loss** reached AED 155 million for the year ended 31/12/2017 against a total comprehensive income of AED 213 million for the year ended 31/12/2016, **down by 173%**.

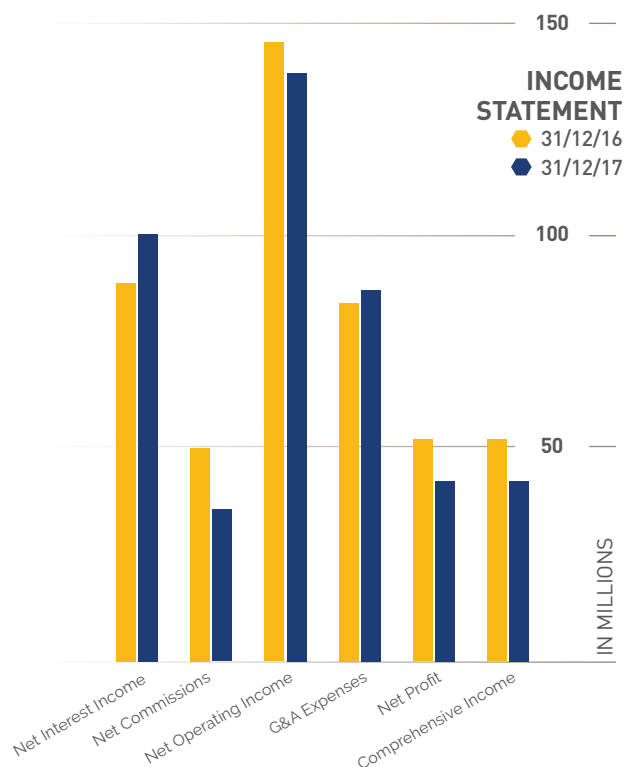






#### EMIRATES LEBANON BANK S.A.L. (EL BANK) ACTIVITIES

- ▶ **Total Assets** reached AED 5,812 million as at 31/12/2017 against AED 5,835 million as at 31/12/2016.
- ▶ **Total Liabilities** reached AED 4,775 million as at 31/12/2017, against AED 4,821 million as at 31/12/2016, down by 1%.
- ▶ **Total Equity** reached AED 1,037 million as at 31/12/2017, against AED 1,013 million as at 31/12/2016, up by 2%.
- ▶ **Total Customers' deposits** reached AED 4,416 million as at 31/12/2017, against AED 4,462 million as at 31/12/2016, down by 1%.
- ▶ **Total Loans and Advances** reached AED 2,437 million as at 31/12/2017, against AED 2,341 million as at 31/12/2016, up by 4%.
- ▶ **Total Off-Balance Sheet** reached AED 1,317 million as at 31/12/2017, against AED 1,479 million as at 31/12/2016, down by 11%.
- ▶ **Net Liquidity** reached AED 2,103 million as at 31/12/2017, against AED 2,318 million as at 31/12/2016, down by 9%.



#### INCOME STATEMENT

- ▶ **Net interest income** reached AED 100 million for the year ended 31/12/2017 against AED 90 million for the year ended 31/12/2016, up by 11%.
- ▶ **Net operating income** reached AED 138 million for the year ended 31/12/2017 against AED 146 million for the year ended 31/12/2016, down by 5%.
- ▶ **Net profit** reached AED 35 million for the year ended 31/12/2017 against AED 51 million for the year ended 31/12/2016, down by 32%.



**PUBLIC DISCLOSURES ON CAPITAL ADEQUACY**

The following qualitative and quantitative disclosures are being provided in accordance with the regulatory capital adequacy guidelines promulgated by the Central Bank of the United Arab Emirates. The guidelines are based on the standards established by the Basel Committee on Banking Supervision of the Bank for International Settlements (Basel II). These guidelines support market discipline by providing market participants with disclosures to help them understand the risk assessment and management process, risk exposures, capital structure, and capital adequacy.

**RISK MANAGEMENT**

Basel II guidelines require banks to have effective mechanisms in place for the active identification, measurement and monitoring of risks across all business lines. Key risks are classified as Credit Risk, Market Risk, Liquidity Risk or Operational Risk. The Bank has implemented appropriate structures to manage and mitigate these and other risks.

**RISK MANAGEMENT STRUCTURE**

Risk Management forms part of the overall governance structure of the Bank. Its aim is to protect the Bank and its stakeholders from exposure to undue losses by ensuring that the Bank's credit and operational activities are constantly monitored and managed within prescribed policies and to ensure that the asset and liability profile is managed and maintained within approved parameters.

To fulfil its obligations to stakeholders, the Bank has established Senior Management committees to oversee risk management. The Executive Committee (EC), under delegation from the Board of Directors, has defined policies, processes and systems to monitor and manage credit risk, operational risk, market risk and liquidity risk. The members of the EC comprise the Chairman and three Board Members, in addition to the Executive Director and General Manager. The EC meets once every 45 days, or more frequently as circumstances dictate. The quorum requires all members to be present at the meeting and decisions taken should be unanimous.

In addition, a 'Board Risk Committee' meeting at least quarterly was established in 2011 to assist the Board to ensure that the Bank has implemented an effective policy and plan for risk management that

will enhance the Bank's ability to achieve strategic objectives, and that the disclosures regarding risk are comprehensive, timely, and relevant.

Additionally, the Bank has an independent Credit Risk function that monitors and reviews adherence to risk management policies and procedures. The Bank's internal audit function, which is part of the risk framework, primarily evaluates the effectiveness of operational risk controls. This function is outsourced to one of the Big Four audit firms to lend the process greater independence and objectivity.

**CREDIT RISK MANAGEMENT**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

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

Policies relating to credit are reviewed and approved by the Group's Executive Committee. All credit lines are approved in accordance with the Group's credit policy set out in the Credit Policy Manual. Credit and marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Group further limits risk through diversification of its assets by economic and industry sectors.



The composition of the loans and advances portfolio by industry is as follows:

	2017 AED'000	2016 AED'000
<b>Economic sector</b>		
Services	5,976,427	5,612,695
Trading	5,610,067	7,267,107
Manufacturing	2,493,138	2,454,930
Personal loans for commercial purposes	2,145,998	668,178
Government	1,211,384	292,581
Construction	720,921	949,431
Financial institutions	441,751	327,499
Transport and communication	365,704	371,605
Personal loans for individual purposes	325,229	544,650
Agriculture	63,017	34,928
Mining and quarrying	4,021	301,727
Public utilities	2,727	713
Other	77,786	154,108
	19,438,170	18,980,152
Less: Allowance for impairment	(1,555,122)	(1,583,551)
Less: Interest in suspense	(406,719)	(321,604)
	<u>17,476,329</u>	<u>17,074,997</u>
	=====	=====

The composition of the non-performing loans and advances portfolio by industry is as follows:

	2017 AED'000	2016 AED'000
<b>Economic sector</b>		
Trading	1,104,213	773,022
Manufacturing	194,862	141,667
Transport and communication	56,455	86,616
Personal loans for commercial purposes	21,094	15,277
Construction	15,181	1,705
Personal loans for individual purposes	7,400	15,501
Services	1,225	28,741
	<u>1,400,430</u>	<u>1,062,529</u>
	=====	=====



All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Risk and facilities are risk graded based on criterion established in the Credit Policy Manual.

Cross-border exposure and financial institutions' exposure limits for money market and treasury activities are approved as per guidelines established by the Group's Executive Committee and are monitored by the Senior Management on a daily basis.

The Executive Committee is responsible for setting credit policy of the Group. It also establishes industry caps, approves policy exceptions, and conducts periodic portfolio reviews to ascertain portfolio quality.

**Commercial/Institutional lending underwriting**

All credit applications for Commercial and Institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group inherently risky and where industry knowledge specialisation is required. In addition, the Group sets credit limits for all customers based on their creditworthiness.

All credit facilities extended by the Group are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the Executive Committee or the Group's Executive Director and General Manager under the supervision of the Board. At least two signatures are required to approve any commercial or institutional credit application.

**Credit review procedures and loan classification**

The Group's Credit Risk department subjects the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the U.A.E. and the Group's internal policies in order to assist in the early identification of accrual and potential performance problems. The Credit Risk department validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and industry and monitors observance of all

approved credit policies, guidelines and operating procedures across the Group.

All commercial/institutional loan facilities of the Group are assigned one of nine risk ratings (A-I), where A is being excellent and I being loss with no reimbursement capacity and total provisioning.

If a Loan is impaired, interest will be suspended and not be credited to the consolidated statement of profit or loss. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

**IMPAIRED LOANS AND SECURITIES**

Impaired loans are loans for which the Group determines that it is likely the collectability of all principal and interest due according to the contractual terms of the loan/securities agreement(s) would be doubtful. These loans are graded G to I in the Group's internal credit risk grading system.

**ALLOWANCES FOR IMPAIRMENT**

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for groups of homogeneous assets with respect to losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

**WRITE-OFF POLICY**

The Group writes off a loan balance (and any related allowances for impairment losses) when the Group determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Group holds collateral against loans and advances in the form of mortgage interests over properties, vehicles and machineries, cash margins, fixed deposits, guarantees and others. The Group accepts guarantees mainly from well-reputed local or international banks, well-established local or multinational corporate and high net worth private individuals.

## LIQUIDITY RISK MANAGEMENT

### Executive Committee (EC) & Board Risk Committee (BRC)

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

In addition to its credit related activity, the Executive Committee along with the Board Risk Committee have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. The EC and BRC review liquidity ratios; asset and liability structure; interest rate and foreign exchange exposures; internal and statutory ratio requirements; funding gaps; and general domestic and international economic and financial market conditions. The EC & BRC formulate liquidity risk management guidelines for the Group's operation on the basis of such review.

The Group's Senior Management monitors the liquidity on a daily basis and uses an interest rate simulation model to measure and monitor interest rate sensitivity and varying interest rate scenarios.

The EC members comprise of the Chairman, three Board Members, in addition to the Executive Director and General Manager. The EC meets once or more every 45 days, as circumstances dictate. The quorum requires all members to be present at the meeting and decisions taken to be unanimous.

The Group manages its liquidity in accordance with U.A.E. Central Bank requirements and the Group's internal guidelines. The U.A.E. Central Bank sets cash ratio requirements on overall deposits ranging between 1.0 percent for time deposits and 14.0 percent for demand deposits, according to the tenor of the deposits. The U.A.E. Central Bank also imposes a mandatory 1:1 utilisation ratio, whereby; loans and advances (combined with inter-bank placements having a remaining term of 'greater than three months') should not exceed stable funds as defined by the U.A.E. Central Bank. Stable funds are defined by the U.A.E. Central Bank to mean free-own funds, inter-bank deposits with a remaining term of more than six months, and stable customer deposits. To guard against liquidity risk, the Group diversifies its funding sources and manages its assets with liquidity in mind, seeking to maintain a preferable proportion between cash,

cash equivalent, and readily marketable securities. The Board Risk Committee sets and monitors liquidity ratios and regularly revises and updates the Group's liquidity management policies to ensure that the Group would be in a position to meet its obligations as they fall due. Management of liquidity risk within the parameters prescribed by the Board Risk Committee has been delegated to an Asset and Liability Committee (ALCO) comprising the Deputy General Manager and senior executives from treasury, finance, corporate credit, and investment departments.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or potential damage to the Group's reputation.

The Treasury department communicates with other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury maintains a portfolio of short-term liquid assets to ensure liquidity is maintained within the Group's operations as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is performed under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board Risk Committee. The Daily Position sheet, which reports the liquidity and exchange positions of the Group is reviewed by Senior Management. A summary report, including any exceptions and remedial action taken, is submitted to the Board Risk Committee.

## MARKET RISK MANAGEMENT

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into trading, or non-trading /banking book.

### a) Market risk – trading book

The Executive Committee has set limits for acceptable levels of risk in managing the trading book. The Group maintains a well-diversified portfolio. In order to manage the market risk in the



trading book, the Group carries a limited amount of market risk based on the policy preference and this is continuously monitored by Senior Management. Proprietary trading for the account of the Group is managed by a proprietary trading limit with a stop-loss limit.

The Group's trading book mainly comprises of equity instruments in companies listed on the U.A.E. exchanges. As such, the market risk in the trading book is limited to equity price risk.

Equity price risk refers to the risk of a decrease in the fair values of equities in the Group's trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

**b) Market risk – non-trading or banking book**

Market risk on non-trading or banking positions mainly arises from the interest rate, foreign currency exposures and equity price changes.

**i) Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Group uses simulation-modelling tools to periodically measure and monitor interest rate sensitivity. The results are monitored and analysed by the Senior Management. Since most of the Group's financial assets and liabilities are floating rate, deposits and loans generally re-price simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Group's assets and liabilities will be re-priced within one year or less, thereby further limiting interest rate risk.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument, excluding non-interest bearing items. The rate is a historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or for an instrument carried at fair value.

**ii) Currency risk**

Currency risk represents the risk of change in the

value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging instruments are also used to ensure that positions are maintained within the limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, in the normal course of business the Group provides foreign currency exposures to finance its client's activities. The Executive Committee sets the limits on the level of exposure by currency for both overnight and intra-day positions, which are closely monitored by Senior Management.

**iii) Equity price risk**

Equity price risk refers to the risk of a decrease in the fair value of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

**OPERATIONAL RISK**

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

**CAPITAL MANAGEMENT AND ALLOCATION**

**CAPITAL MANAGEMENT PROCESS**

The Group's objectives when managing capital, which is a broader concept than the 'equity' in the consolidated statement of financial positions, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the authority on a monthly or/and quarterly basis.

The Group assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, and commodity risk.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

**A. CAPITAL ADEQUACY FRAMEWORK (BASEL II)**

The Basel II framework incorporates three equally important and mutually reinforcing pillars:

**Pillar I**

Minimum Capital requirements for credit risk-weighted assets, market risk-weighted assets, and operational risk.

Credit risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset (on and off-balance sheet) and counterparty, taking into account any eligible collateral or guarantees.

Market risk-weighted assets are determined by taking into account market related risks such as foreign exchange, interest rate, and equity position risks.

**CREDIT RISK**

Basel II has specified three approaches to the calculation of the regulatory capital requirement for credit risk which are (1) the Standardised approach,

(2) the Foundation Internal Ratings-Based ('IRB') approach and (3) the Advanced 'IRB' approach.

Bank of Sharjah applies the Standardised approach that uses external credit ratings provided by External Credit Assessment Institutions (ECAI) approved by the Central Bank of the UAE, to determine the risk weightings to be applied to rated counterparties. Risk weightings for non-rated counterparties are assigned at 100%.

**MARKET RISK**

The Bank assesses Market Risk through the Standardised approach, under which interest rate risk and equity position risks are restricted to the trading book. Foreign exchange, commodity, and option risks are applied on the banking book.

**OPERATIONAL RISK**

The Bank applies the Basic Indicator Approach.

**Pillar II - Supervisory Review Process (SRP)**

The SRP requires banks to implement a process for assessing their capital adequacy in relation to their risk profiles as well as a strategy for maintaining their capital levels. Under this pillar, banks' procedures and measures should ensure (1) an appropriate identification and measurement of the risk profile of their activities; (2) an appropriate level of internal capital to cover these risks, and (3) application and further development of suitable risk management systems.

Supervisors are required to intervene at an early stage to prevent capital falling below the minimum levels required to support the risk characteristics of the Bank.

**Pillar III - Market Discipline**

The purpose behind this pillar is to enhance transparency by expanding public reporting on the risk position of banks, hence increasing comparability among them.

Bank of Sharjah implements all three pillars of the Basel II framework.



CAPITAL STRUCTURE:

The Bank's components of Tier 1 and Tier 2 capital bases are as follows:

<b>TIER 1 CAPITAL</b>	<b>2017</b>	<b>2016</b>
	<b>AED'000</b>	<b>AED'000</b>
<b>Core Capital</b>		
Share capital	<b>2,100,000</b>	2,100,000
Legal reserves	<b>1,050,000</b>	1,050,000
General reserves	<b>660,000</b>	610,000
Retained earning	<b>647,251</b>	606,035
Minority interests	<b>11,462</b>	210,857
<b>Total core capital</b>	<b>4,468,713</b>	4,576,892
Less: Goodwill and other intangibles	<b>(421,966)</b>	(228,324)
<b>Total Qualifying Tier 1 capital</b>	<b>4,046,747</b>	4,348,568
<b>TIER 2 CAPITAL</b>		
Collective impairment allowance on loans and advances (Note 1)	<b>257,180</b>	235,383
Cumulative changes in fair value (Note 2)	-	10,276
<b>Total Qualifying Tier 2 Capital</b>	<b>257,180</b>	245,659
<b>Total Eligible Regulatory Capital</b>	<b>4,303,927</b>	4,594,227
	=====	=====

Note 1:

General Provisions are restricted to a maximum of 1.25% of Risk Weighted Assets.

Note 2:

- a) Limited to a maximum of 45% of the excess of the market value over net book value
- b) Revaluation reserves in respect of a bank's property assets are not to be included
- c) Negative reserves deducted at 100%

CAPITAL MANAGEMENT

The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of expected growth of the banking facilities (including off-balance sheet) for each business group activity, for future sources and uses of funds, and for the Bank's future dividends policy.

Capital is allocated to different business groups and stress testing is used to ensure that the Bank's internal capital targets are consistent with the risk profile of the Bank.

CAPITAL ADEQUACY

The table below details the risk-weighted assets, regulatory capital requirements and regulatory capital ratios for Bank of Sharjah as at 31 December 2017.

**1. RISK WEIGHTED ASSETS**

	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
<b>Pillar 1</b>		
Credit Risk	<b>20,574,385</b>	18,830,611
Market Risk	<b>208,783</b>	171,177
Operational Risk	<b>1,481,723</b>	1,484,159
<b>Total Risk Weighted Assets</b>	<b>22,264,891</b>	20,485,947
	=====	=====

**CREDIT RISK****2017**

AED 000's

**Asset Classes**

	<b>ON &amp; OFF BALANCE SHEET</b>	<b>CREDIT RISK MITIGATION (CRM)</b>			<b>RISK WEIGHTED ASSETS</b>
	Gross Outstanding	Exposure Before CRM	CRM	After CRM	
Claims On Sovereigns	<b>6,449,692</b>	<b>6,449,692</b>	-	<b>6,379,171</b>	<b>2,332,218</b>
Claims On Non- Commercial Public Sector Entities (PSEs)	<b>488,762</b>	<b>488,762</b>	-	<b>122,005</b>	-
Claims on Multi-Lateral Development Banks	-	-	-	-	-
Claims On Banks	<b>2,452,836</b>	<b>2,452,836</b>	<b>3</b>	<b>2,418,930</b>	<b>125,811</b>
Claims on Securities Firms	<b>12,370</b>	<b>12,370</b>	-	<b>12,370</b>	<b>4,787</b>
Claims On Corporates & GREs	<b>18,747,208</b>	<b>18,745,069</b>	<b>4,427,843</b>	<b>15,874,030</b>	<b>11,446,187</b>
Claims Included In The Regulatory Retail Portfolio	<b>1,507,597</b>	<b>1,507,597</b>	<b>171,825</b>	<b>1,393,260</b>	<b>1,216,792</b>
Claims Secured By Residential Property	<b>3,105,963</b>	<b>3,105,963</b>	<b>600,025</b>	<b>3,105,963</b>	<b>1,887,735</b>
Claims Secured By Commercial Real Estate	<b>171,615</b>	<b>171,615</b>	-	<b>170,820</b>	<b>170,820</b>
Past Due Loans	<b>1,420,545</b>	<b>(283,292)</b>	<b>293</b>	<b>(291,090)</b>	<b>(263,193)</b>
Higher-Risk Categories	<b>1,237,796</b>	<b>1,237,796</b>	-	<b>1,237,796</b>	<b>1,856,691</b>
Other Assets	<b>2,069,016</b>	<b>2,069,016</b>	-	<b>2,069,016</b>	<b>1,796,537</b>
<b>Total Claims</b>	<b>37,663,400</b>	<b>35,957,424</b>	<b>5,199,989</b>	<b>32,492,271</b>	<b>20,574,385</b>
<b>Settlement Risk</b>					-
<b>Total Credit Risk</b>					<b>20,574,385</b>
					=====



CREDIT RISK

2016

AED 000's

Asset Classes

	ON & OFF	CREDIT RISK MITIGATION (CRM)			RISK
	BALANCE SHEET				WEIGHTED
	Gross Outstanding	Exposure Before CRM	CRM	After CRM	ASSETS
Claims On Sovereigns	5,266,226	5,266,226	-	5,195,704	2,265,967
Claims On Non-Commercial Public Sector Entities (PSEs)	506,652	506,652	-	101,811	-
Claims on Multi-Lateral Development Banks	-	-	-	-	-
Claims On Banks	1,415,566	1,415,566	1,840	1,379,662	174,915
Claims on Securities Firms	10,695	10,695	-	10,695	3,499
Claims On Corporates & GREs	18,241,092	17,844,598	4,930,876	14,796,734	10,461,976
Claims Included In The Regulatory Retail Portfolio	1,605,890	1,605,890	73,111	1,469,097	1,388,776
Claims Secured By Residential Property	2,681,432	2,681,432	702,536	2,681,432	1,495,575
Claims Secured By Commercial Real Estate	141,149	141,149	-	140,598	140,598
Past Due Loans	1,072,066	(212,442)	-	(215,304)	(209,520)
Higher-Risk Categories	833,730	833,730	-	833,730	1,250,595
Other Assets	2,065,523	2,065,523	-	2,065,523	1,858,230
Total Claims	33,840,021	32,159,019	5,708,363	28,459,682	18,830,611
Settlement Risk					-
Total Credit Risk					18,830,611

MARKET RISK

	2017	2016
	AED'000	AED'000
Interest rate risk-Trading book	-	-
Foreign exchange risk	225	1,939
Equity exposure risk-Trading book	24,829	18,602

Market risk total capital charge 25,054 20,541

Market risk-risk weighted assets (above total x8.33 ) 208,783 171,177

OPERATIONAL RISK

Three-year average Gross Income	790,252	791,551
Capital charge (Beta factor (15%))	118,538	118,733

Capital charge UAE (1.5\* Capital Charge) 177,807 178,099

Operational risk-risk weighted assets (above total x8.33) 1,481,723 1,484,159

**2. CAPITAL RATIOS**

<b>TIER 1 RATIO</b>	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
Tier 1 capital	<b>4,046,747 (a)</b>	4,348,568 (a)
<b>Total risk weighted assets</b>	<b>22,264,891 (b)</b>	20,485,947 (b)
	=====	=====
<b>Tier 1 Ratio ((a)/(b))</b>	<b>18.18 %</b>	21.23 %
	=====	=====
 <b>CAPITAL ADEQUACY RATIO</b>		
Capital Base	<b>4,303,927 (a)</b>	4,594,227 (a)
<b>Total risk weighted assets</b>	<b>22,264,891 (b)</b>	20,485,947 (b)
	=====	=====
<b>Capital Adequacy Ratio ((a)/(b))</b>	<b>19.33%</b>	22.43%
	=====	=====

**B. CAPITAL ADEQUACY FRAMEWORK (BASEL III)**

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 three levels, namely common Equity Tier1 capital ratio (CET1), Tier1 capital ratio (T1) and Total capital ratio.

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

For 2017, CCB is effective in transition arrangement and is required to be maintained at 1.25% of the Capital base. For 2018, CCB will be required at 1.88% and from 2019; it will be required to be maintained at 2.5% of the Capital base. CCyB is not yet in effect and is not required to be maintained for 2017.

The capital adequacy ratio as per Basel III capital regulation is given below:

<b>CAPITAL RATIO</b>	<b>2017</b>	<b>MINIMUM CAPITAL REQUIREMENT 2017</b>
Total capital ratio	<b>17.93%</b>	<b>10.50%</b>
Tier 1 capital ratio	<b>16.87%</b>	<b>8.50%</b>
CET1 capital ratio	<b>16.87%</b>	<b>7.00%</b>



An impressionistic painting of a river or stream flowing through a forest. The water is depicted with dark, swirling brushstrokes in shades of blue, green, and grey. The banks are covered in dense foliage with vibrant autumn colors like red, orange, and yellow, interspersed with dark green leaves. The overall style is textured and expressive, with visible brushwork throughout.

# General Assembly Resolutions



The General Assembly resolutions No. 44:

1. The General Assembly approves unanimously the Board of Directors' Report on the Bank's activities for the year ending 31/12/2017.
2. The General Assembly approves unanimously the Auditor's Report for the year ending 31/12/2017.
3. The General Assembly approves unanimously the Balance Sheet and the Profit & Loss Statement as at 31/12/2017.
4. The General Assembly approves unanimously to discharge the liability of the Directors for their services during the period ending 31/12/2017.
5. The General Assembly approves unanimously to discharge the liability of the External Auditors for their services during the period ending 31/12/2017.
6. The General Assembly approves unanimously to Approve the Board of Directors' remuneration for the year 2017.
7. The General Assembly approves unanimously to appoint the External Auditors for the financial year 2018 and fix their remuneration at AED 735,000.

#### **SPECIAL DECISIONS**

8. The General Assembly by majority voting approves the amendment of Article 18 of the Articles of Association, whereby the number of the Board members will be increased from 9 to 11:

#### **ARTICLE (18)**

##### **FORMATION OF THE BOARD**

The Company shall be managed by a Board of Directors, which shall consist of eleven members to be elected by the General Assembly by secret cumulative ballot provided at least one-third of

them are Independent Directors and the majority are Non-Executive Directors. It will not be permitted for the Chairman of the Board to be the General Manager of the Company or its Managing Director. In all events, the majority of the Directors, including the Chairman, must be UAE citizens.

If the Director was an individual, he must hold shares of a par value of not less than Dirhams One Hundred Thousand. However, if he was acting for a corporate body, the corporate body represented by such Director shall have to be the holder of shares having the aforementioned value. The Director must retain these shares for the full tenure of his directorship as security to the Company's benefit against his management errors.

9 - The General Assembly approves unanimously the update of or supplement to the Bank's Euro Medium Term Note Program, which was originally established pursuant to the approval of the General Assembly No. 42 held on 30th April 2016, such update or supplement to take place at any time (and, if required, multiple times) prior to the next General Assembly of the Bank.

The issuance by the Bank, or by a special purpose vehicle established for such purpose, of any senior unsecured notes under the Bank's Euro Medium Term Note Program, either as it currently stands or as updated or supplemented pursuant to item (i) above, or of any other senior debt securities, whether secured or unsecured, on a stand-alone basis or under an issuance program, including, without limitation, certificates of deposit or commercial paper, in a total amount of up to U.S. \$ 1,500,000,000 at any point in time prior to the next Ordinary General Assembly of the Bank.

The above will be subject to the resolutions of such matters by the Board, which may proceed to implement such transactions accordingly, and any approvals required by relevant authorities.



# Consolidated Financial Statements

For the year ended 31 December 2017



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An abstract watercolor artwork featuring bold, expressive brushstrokes in shades of blue, orange, red, and green. The composition is layered with torn pieces of white and light-colored paper, creating a collage-like effect. The background is a textured, light beige color. A dark blue horizontal band across the upper portion of the image contains the text "Board of Directors' Report" in white. In the bottom left corner, there is a faint, handwritten signature that appears to read "Tosv 1/1".

# Board of Directors' Report



The Board has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2017.

**INCORPORATION AND REGISTERED OFFICE**

Bank of Sharjah P.J.S.C. (the "Bank") is a Public Joint Stock Company with Limited Liability, incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced operations under a banking license issued from United Arab Emirates Central Bank dated 26 January 1974.

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates.

**PRINCIPAL ACTIVITIES**

The Bank's principal activities are commercial and investment banking.

**RESULTS**

The profit for the year ended 31 December 2017 amounted to AED 265 million (2016: AED 402 million). The total comprehensive loss for the year ended 31 December 2017 amounted to AED 155 million (2016: profit of AED 213 million) after taking into consideration the unrealised losses on revaluation of financial assets and liabilities measured at fair value through other comprehensive income and through profit or loss due to credit risk, respectively, amounting to AED 420 million (2016: AED 190 million).

The detailed results are set out in the attached consolidated financial statements.

**DIRECTORS**

The Directors during the year were:

1. Mr. Ahmed Abdalla Al Noman (Chairman)
2. Sheikh Mohammed bin Saud Al Qassimi (Vice Chairman)
3. Sheikh Seif bin Mohd bin Butti Al Hamed
4. H.E. Humeid Naser Al Owais
5. Mr. Abdul Rahman Bukhatir (resigned on 10 January 2017)
6. Mr. Abdul Aziz Hassan Al Midfa
7. Mr. Abdul Aziz Mubarak Al Hassawi
8. Mr. Saud Al Besharah
9. Mr. Francois Dauge
10. Mr. Salem Al Ghammai

On behalf of the Board

Mr. Ahmed Abdalla Al Noman  
Chairman  
Sharjah, United Arab Emirates  
18 February 2018



# Independent Auditors' Report





To the Shareholders of Bank of Sharjah P.J.S.C.

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Opinion

We have audited the consolidated financial statements of Bank of Sharjah P.J.S.C. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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 (IFRS).

### Basis for Opinion

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

### Key Audit Matters

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

## CREDIT RISK AND IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

Refer to note 5.1(i), 9, 32 and 37 of the consolidated financial statements.

Impairment is a subjective area due to the level of judgement applied by the management in determining the impairment allowance. Due to the significance of loans and advances (representing 57% of total assets) and the related estimation uncertainty, this is considered a key audit matter.

Judgement is applied to determine appropriate parameters and assumptions used to calculate impairment. For example, the assumption of customers that will default, the valuation of collateral for secured lending and the future cash flows of corporate loan customers. In addition, we also focused on individually significant exposures that either continued to be, have become, or were at risk of being individually impaired.

## OUR RESPONSE

Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans and advances, and evaluating the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments, and assessing the adequacy of impairment allowances for individually assessed loans.

1. For the top 10 large corporate exposures that makes a significant portion of the gross loans of the Bank, our procedures included:
  - > Performing detailed credit assessments for each loan. We assessed the reasonableness of the forecast of recoverable cash flows, realisation of collateral and other possible sources of repayment. We compared key assumptions to progress against business plans and our own understanding of the relevant industries and business environment. We also compared them, where significant, to externally derived evidence such as audited accounts of the borrowers and real estate valuations for assessing the appropriateness of the collateral values held by the Bank.
2. For the remaining corporate exposures of the Bank, our procedures included:
  - > Testing the key controls over the internal credit grading and monitoring process, to assess if



- the risk grades allocated to counterparties were appropriately identified and updated, on a timely basis.
- › Substantive testing of a selection of credit grades to test the appropriateness of the credit grades at a given point in time.
  - › Performing credit assessments for selected loans. We assessed the reasonableness of the forecast of recoverable cash flows, realisation of collateral and other possible sources of repayment. We compared key assumptions to progress against business plans and our own understanding of the relevant industries and business environment. We also compared them, where significant, to externally derived evidence such as audited accounts of the borrowers and real estate valuations for assessing the appropriateness of the collateral values held by the Bank.
3. For collective provision, our procedures included:
- › Testing the key management controls over the impact of underlying data into the models;
  - › Evaluating the methodology and the key assumptions used in determining the estimates and wherever possible, we compare the key assumptions used to externally available industry, financial and economic data
  - › For judgemental overlays, we challenged management to provide objective evidence that the overlays were appropriate.
4. For the key underlying systems used for the processing of transactions we involved our information technology specialists to test a selection of automated controls within these systems.
5. Assessing whether the consolidated financial statement disclosures appropriately reflect the Group's exposure to credit risk.

**VALUATION OF LEVEL 3 FINANCIAL INSTRUMENTS**  
*Refer to note 5.2(ii), 10 and 39 of the consolidated financial statements.*

The risk is that the valuation of financial instruments maybe misstated due to the application of valuation techniques which often involve the exercise of significant judgement and the use of assumptions and estimates.

Of the financial instruments that are held at fair value through profit or loss or as FVTOCI in the

Group's statement of financial position, 68% (2016: 83%) were measured using level 3 inputs in the fair value hierarchy as at 31 December 2017.

Financial instruments are classed at Level 3 because significant pricing inputs to them are unobservable. The determination of these prices is inherently more subjective and as such due to the uncertainty in estimating some of the fair values, this is considered as a key audit matter.

**OUR RESPONSE**

- Our audit procedures included:
1. The assessment of controls over the identification, measurement and management of valuation risk, evaluating the methodologies, reasonableness of inputs and assumptions used by the Group in determining fair values.
  2. Assessing, for a selection of investments, key inputs, assumptions, considering alternate valuation methods used by management and supporting to key factors.
  3. We compared observable inputs against independent sources and externally available market data. For significant unobservable valuation inputs, we involved our valuation specialist to critically assess the reasonableness of the assumptions and models used by the management for valuation of level 3 investments.
  4. Additionally, we assessed whether the consolidated financial statements disclosures of fair value risks and sensitivities appropriately reflect the Group's exposure to valuation risk.

**VALUATION OF INVESTMENT PROPERTIES AND PROPERTIES HELD-FOR-SALE**

*Refer to note 5.2(iii), 11 and 13 of the consolidated financial statements.*

The Group's accounting policy is to state its investment properties at fair value and properties held-for-sale at lower of cost or net realisable value at each reporting date.

Due to the significance of these properties, the general slowdown in the UAE real estate sector and the impact on the consolidated statement of profit or loss and related estimation uncertainty, this is considered as a key audit matter.

The valuation of the portfolio is a significant judgment area and is underpinned by a number of assumptions. The existence of significant estimation uncertainty warrants specific audit focus in this area as any bias or error in determining the fair value, whether deliberate or not, could lead to an overstatement (or understatement) of profit or loss for the year.

### OUR RESPONSE

Our audit procedures included:

1. We assessed the competence, independence and integrity of the external valuers and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;
2. We obtained the external valuation reports for all properties and confirmed that the valuation approach is in accordance with international standards and suitable for use in determining the carrying value in the consolidated statement of financial position;
3. We carried out procedures on the selected samples, to test whether property specific standing data supplied to the external valuers by management reflected the underlying property records held by the Group and which has been tested during our audit; and
4. Based on the outcome of our evaluation we determined the adequacy of the disclosure in the consolidated financial statements.

### OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Directors' report, which we obtained prior to the date of this auditors' report, and the Group's 2017 Annual Report which is expected to be made available to us after that date.

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 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 have obtained prior to the date of this auditors' 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 will read the report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

### RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### AUDITORS' 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 auditors' 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 scepticism throughout the audit. We also:

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

consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- v) as disclosed in note 10 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2017;
- vi) note 34 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No.(2) of

2015 or in respect of the Bank, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2017; and

viii) note 33 to the consolidated financial statements discloses the social contributions made during the year.

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

KPMG Lower Gulf Limited

Fawzi AbuRass  
Registration Number: 968  
Dubai, United Arab Emirates  
18 February 2018





# Consolidated Statement of Financial Position

As at 31 December 2017



**BANK OF SHARJAH P.J.S.C.**

Consolidated statement of financial position as at 31 December

	NOTES	2017 AED'000	2016 AED'000
<b>ASSETS</b>			
Cash and balances with central banks	6	5,587,606	4,308,887
Deposits and balances due from banks	7	503,218	691,673
Reverse-repo placements	8	1,867,798	639,476
Loans and advances, net	9	17,476,329	17,074,997
Other financial assets measured at fair value	10	813,286	1,100,834
Other financial assets measured at amortised cost	10	794,585	747,237
Investment properties	11	584,858	281,337
Goodwill and other intangibles	12	421,966	228,324
Other assets	13	2,192,732	1,750,008
Property and equipment	15	268,822	274,196
<b>TOTAL ASSETS</b>		<b>30,511,200</b>	<b>27,096,969</b>
=====			
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Customers' deposits	17	21,630,471	19,736,917
Deposits and balances due to banks	18	87,122	97,789
Other liabilities	19	1,018,866	835,897
Issued bonds	20	3,706,810	1,826,638
<b>TOTAL LIABILITIES</b>		<b>26,443,269</b>	<b>22,497,241</b>
=====			
<b>Equity</b>			
<b>Capital and reserves</b>			
Share capital	21 (a)	2,100,000	2,100,000
Statutory reserve	21 (b)	1,050,000	1,050,000
Contingency reserve	21 (c)	560,000	510,000
General reserve	21 (d)	100,000	100,000
Investment fair value reserve		(400,782)	22,836
Retained earnings		647,251	606,035
<b>Equity attributable to equity holders of the Bank</b>		<b>4,056,469</b>	<b>4,388,871</b>
Non-controlling interests		11,462	210,857
<b>TOTAL EQUITY</b>		<b>4,067,931</b>	<b>4,599,728</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>30,511,200</b>	<b>27,096,969</b>
=====			

Mr. Ahmed Abdalla Al Noman  
Chairman  
Sharjah, United Arab Emirates  
18 February 2018

Mr. Varouj Nerguizian  
General Manager  
Sharjah, United Arab Emirates  
18 February 2018

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



An abstract painting with thick, expressive brushstrokes in various colors including blue, red, yellow, green, and brown. The composition is dynamic and textured, with a dark blue rectangular area in the upper left corner where the text is placed.

# Consolidated Statement of Profit or Loss

As at 31 December 2017



**BANK OF SHARJAH P.J.S.C.**

Consolidated statement of profit or loss for the year ended 31 December

	NOTES	2017 AED'000	2016 AED'000
Interest income	27	1,152,819	1,054,337
Interest expense	28	(686,982)	(532,355)
<b>NET INTEREST INCOME</b>		<b>465,837</b>	521,982
Net fee and commission income	29	236,883	173,979
Exchange profit		21,322	21,046
Income on investments	30	31,561	9,545
Revaluation loss on investment properties	11	(9,515)	(66)
Other income	31	33,898	31,199
<b>OPERATING INCOME</b>		<b>779,986</b>	757,685
Net impairment loss on financial assets	32	(210,793)	(62,337)
<b>NET OPERATING INCOME</b>		<b>569,193</b>	695,348
General and administrative expenses	33	(290,172)	(276,242)
Amortisation of intangible assets	12	(5,910)	(5,910)
<b>PROFIT BEFORE TAXES</b>		<b>273,111</b>	413,196
Income tax expense - overseas		(8,257)	(11,040)
<b>NET PROFIT FOR THE YEAR</b>		<b>264,854</b>	402,156
		=====	=====
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Bank		266,088	392,018
Non-controlling interests		(1,234)	10,138
<b>NET PROFIT FOR THE YEAR</b>		<b>264,854</b>	402,156
		=====	=====
<b>BASIC AND DILUTED EARNINGS PER SHARE (AED)</b>	22	<b>0.13</b>	0.19
		=====	=====

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





# Consolidated Statement of Profit and Loss and Other Comprehensive Income

As at 31 December 2017



**BANK OF SHARJAH P.J.S.C.**

Consolidated statement of profit and loss and other comprehensive income  
for the year ended 31 December

	<b>2017</b> <b>AED'000</b>	2016 AED'000
<b>NET PROFIT FOR THE YEAR</b>	<b>264,854</b>	402,156
<b>OTHER COMPREHENSIVE INCOME ITEMS</b>		
Items that will not be reclassified subsequently to consolidated statement of profit or loss:		
Net changes in fair value of financial assets measured at fair value through other comprehensive income	<b>(343,130)</b>	(100,989)
Net changes in fair value of financial liabilities measured at fair value through profit or loss due to credit risk	<b>(76,591)</b>	(88,594)
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>(419,721)</b>	(189,583)
<b>TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR</b>	<b>(154,867)</b> =====	212,573 =====
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the Bank	<b>(153,633)</b>	202,422
Non-controlling interests	<b>(1,234)</b>	10,151
<b>TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR</b>	<b>(154,867)</b> =====	212,573 =====

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





# Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

**BANK OF SHARJAH P.J.S.C.**

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

	SHARE CAPITAL AED '000	STATUTORY RESERVE AED '000	CONTINGENCY RESERVE AED '000	GENERAL RESERVE AED '000	INVESTMENT FAIR VALUE RESERVE AED '000	RETAINED EARNINGS AED '000	TOTAL EQUITY ATTRIBUTABLE TO OWNERS	NON CONTROLLING INTERESTS AED '000	TOTAL EQUITY AED '000
<b>BALANCE AT 1 JANUARY 2016</b>	<b>2,100,000</b>	<b>1,050,000</b>	<b>480,000</b>	<b>100,000</b>	<b>212,432</b>	<b>476,485</b>	<b>4,418,917</b>	<b>203,527</b>	<b>4,622,444</b>
Profit for the year	-	-	-	-	-	392,018	392,018	10,138	402,156
Other comprehensive loss	-	-	-	-	(189,596)	-	(189,596)	13	(189,583)
Total comprehensive loss for the year	-	-	-	-	(189,596)	392,018	202,422	10,151	212,573
<b>TRANSACTIONS WITH OWNERS OF THE GROUP</b>									
Directors' remuneration (Note 23)	-	-	-	-	-	(9,968)	(9,968)	(617)	(10,585)
Charity donations (Note 23)	-	-	-	-	-	(2,500)	(2,500)	-	(2,500)
Transfer to contingency reserve	-	-	30,000	-	-	(30,000)	-	-	-
Treasury shares (Note 23)	-	-	-	-	-	(220,000)	(220,000)	-	(220,000)
Cash Dividends (Note 23)	-	-	-	-	-	-	-	(2,204)	(2,204)
<b>BALANCE AT 31 DECEMBER 2016</b>	<b>2,100,000</b>	<b>1,050,000</b>	<b>510,000</b>	<b>100,000</b>	<b>22,836</b>	<b>606,035</b>	<b>4,388,871</b>	<b>210,857</b>	<b>4,599,728</b>
Profit for the year	-	-	-	-	-	266,088	266,088	(1,234)	264,854
Reclassification on disposal of FVOCI investment	-	-	-	-	(3,897)	3,897	-	-	-
Other comprehensive loss	-	-	-	-	(419,721)	-	(419,721)	-	(419,721)
Total comprehensive loss for the year	-	-	-	-	(423,618)	269,985	(153,633)	(1,234)	(154,867)
<b>TRANSACTIONS WITH OWNERS OF THE GROUP</b>									
Directors' remuneration (Note 23)	-	-	-	-	-	(10,409)	(10,409)	(727)	(11,136)
Charity donations (Note 23)	-	-	-	-	-	(7,500)	(7,500)	-	(7,500)
Transfer to contingency reserve	-	-	50,000	-	-	(50,000)	-	-	-
Indirect acquisition of a non-controlling interest in a subsidiary (Note 12)	-	-	-	-	-	-	-	(208,661)	(208,661)
Acquisition of a subsidiary (Note 12)	-	-	-	-	-	-	-	12,696	12,696
Cash Dividends (Note 23)	-	-	-	-	-	(160,860)	(160,860)	(1,469)	(162,329)
<b>BALANCE AT 31 DECEMBER 2017</b>	<b>2,100,000</b>	<b>1,050,000</b>	<b>560,000</b>	<b>100,000</b>	<b>(400,782)</b>	<b>647,251</b>	<b>4,056,469</b>	<b>11,462</b>	<b>4,067,931</b>

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





# Consolidated Statement of Cash Flows

For the year ended 31 December 2017



**BANK OF SHARJAH P.J.S.C.**

Consolidated statement of cash flows for the year ended 31 December

	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the year	<b>264,854</b>	402,156
<b>ADJUSTMENTS FOR:</b>		
Depreciation of property and equipment	<b>28,796</b>	25,386
Amortisation of other intangible assets	<b>5,910</b>	5,910
Amortisation of (premium)/ discount on debt instruments	<b>(3,901)</b>	504
Gain on sale of investment properties	<b>(6,796)</b>	-
Gain on sale of property and equipment	<b>(42)</b>	(209)
Net fair value gain on issued debt securities	<b>(32,916)</b>	(4,507)
Net fair value loss on interest rate swaps	<b>32,916</b>	4,507
Net fair value (gain) / loss on other financial assets	<b>(30,101)</b>	1,771
Fair value loss on revaluation of investment properties	<b>9,515</b>	66
Unrealized loss on assets acquired in settlement of debts	<b>6,162</b>	3,264
Amortization of transaction costs on issued bonds	<b>-</b>	6,489
Net impairment loss on financial assets	<b>210,793</b>	62,337
Dividends income	<b>(2,434)</b>	(2,798)
<b>OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>	<b>482,756</b>	504,876
<b>CHANGES IN</b>		
Deposits and balances due from banks maturing after three months	<b>(46,042)</b>	(121,882)
Statutory deposits with central banks	<b>(185,307)</b>	(51,720)
Loans and advances	<b>(612,125)</b>	(2,313,687)
Other assets	<b>(442,430)</b>	751,328
Customers' deposits	<b>1,893,554</b>	245,102
Other liabilities	<b>143,594</b>	(860,238)
<b>CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES</b>	<b>1,234,000</b>	(1,846,221)
Payment of Directors' remuneration and charity donations	<b>(18,636)</b>	(13,085)
<b>NET CASH GENERATED FROM/ (USED IN) OPERATING ACTIVITIES</b>	<b>1,215,364</b>	(1,859,306)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<b>(23,663)</b>	(25,232)
Proceeds from sale of property and equipment	<b>283</b>	1,065
Purchase of other financial assets	<b>(253,057)</b>	(516,558)
Proceeds from sale of investment properties	<b>70,414</b>	-
Additions to investment properties	<b>(376,655)</b>	(812)
Acquisition of subsidiaries	<b>(395,516)</b>	-
Proceeds from sale of other financial assets	<b>184,128</b>	305,759
Dividends received	<b>2,434</b>	2,798
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(791,632)</b>	(232,980)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	<b>(162,329)</b>	(2,204)
Issued bonds	<b>1,836,500</b>	-
<b>NET CASH GENERATED FROM / (USED IN) FINANCING ACTIVITIES</b>	<b>1,674,171</b>	(2,204)
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,097,903</b>	(2,094,490)
Cash and cash equivalents at the beginning of the year	<b>3,015,845</b>	5,110,335
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 25)</b>	<b>5,113,748</b>	3,015,845
	=====	=====

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



An abstract painting with a rich, textured background. The color palette is dominated by warm tones: deep reds, oranges, and yellows. There are several dark, almost black, shapes scattered across the composition, including a large, irregular shape in the upper left and a vertical, rectangular shape in the center. The brushstrokes are visible and expressive, giving the painting a sense of movement and depth.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017



1. GENERAL INFORMATION

Bank of Sharjah P.J.S.C. (the "Bank"), is a public joint stock company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under the Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced its operations under a banking license issued by the United Arab Emirates Central Bank dated 26 January 1974. The Bank is engaged in commercial and investment banking activities.

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates. The Bank operates through five branches in the United Arab Emirates located in the Emirates of Sharjah, Dubai, Abu Dhabi, and City of Al Ain.

The accompanying consolidated financial statements combine the activities of the Bank and its subsidiaries (collectively the "Group").

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS")

NEW AND REVISED IFRSS APPLIED WITH NO MATERIAL EFFECT ON THE CONSOLIDATED FINANCIAL STATEMENTS

The following revised IFRSs 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 periods but may affect the accounting for future transactions or arrangements:

- > Amendments to IAS 12 Income Taxes relating to recognition of Deferred Tax Assets for unrealised Losses.
- > Amendments to IAS 7 Statement of Cash Flows to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- > Amendment to IFRS 12 related to disclosure requirements of interest in other entities.

NEW AND REVISED STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER

The Group has not early adopted the following new and revised standards that have been issued but are not yet effective:

- |   |                |
|---|----------------|
| > 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 |
| > IAS 40 Investment properties: The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.                                   |                |



> IAS 28 Investment in associates and joint ventures: A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. 1 January 2018

> IFRIC 22 Foreign Currency Transactions and Advance Consideration: When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates is not clear on how to determine the transaction date for translating the related item. This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. 1 January 2018

Effective 1 January, 2018

IFRS 9 FINANCIAL INSTRUMENTS

On 24 July, 2014, the IASB issued IFRS 9 Financial Instruments ("the Standard"), which will replace IAS 39. The Standard covers three broad topics: Classification and Measurement, Impairment and Hedging.

GOVERNANCE AND PROJECT MANAGEMENT

The adoption of IFRS 9 is a significant initiative for the Bank, involving substantial finance, risk management and technology resources. The project is managed through an IFRS 9 management committee including involvement from across risk management, finance, technology, and the business units. The Bank's existing system of internal controls will be refined and revised where required to meet all the requirements of IFRS 9. The Bank has applied many components of its existing governance framework to ensure that appropriate validations and controls will be in place over new key processes and significant areas of judgment. Adoption of IFRS 9 in 2018 has or will result in revisions to procedures, changes and amendments to internal control documents, applicable credit risk manuals, development of new risk models and associated methodologies and new processes within risk management. Periodic reporting on the progress against plan and results of parallel run was provided to Bank senior management throughout the Fiscal year.

The following is a summary of some of the more significant items that are likely to be important in understanding the impact of the implementation of IFRS 9:

CLASSIFICATION AND MEASUREMENT

The Group has already adopted the classification requirements of IFRS 9 and as such there will be no material impact on opening equity as at 1st January 2018 on account of changes in classification requirements of IFRS 9, except for the classification of Debt instruments. A debt instrument is measured at FVOCI 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.

HEDGE ACCOUNTING

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group has decided to

exercise this accounting policy choice. However, the Group will implement the revised hedge accounting disclosures that are required by the IFRS 9 related amendments to IFRS 7 "Financial Instruments: Disclosures" in its 2018 Annual Report.

### IMPAIRMENT

The adoption of IFRS 9 will have a significant impact on the Bank's impairment methodology. The IFRS 9 expected credit loss (ECL) model is forward looking compared to the current incurred loss approach. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. ECL should reflect an unbiased, probability-weighted outcome as opposed to the single best estimate allowed under the current approach. The probability-weighted outcome considers multiple scenarios based on reasonable and supportable forecasts.

The Bank developed new methodologies and models taking into account the relative size, quality and complexity of the portfolios. IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

IFRS 9 Impairment model uses a three stage approach based on the extent of credit deterioration since origination:

#### Stage 1

12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity. This Stage 1 approach is different than the current approach which estimates a collective allowance to recognize losses that have been incurred but not reported on performing loans.

#### Stage 2

When a financial asset experiences a SICR subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over

the remaining estimated life of the financial asset. Provisions are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

#### Stage 3

Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgement are:

### ASSESSMENT OF SIGNIFICANT INCREASE IN CREDIT RISK

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant.

This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant.

### MACROECONOMIC FACTORS, FORWARD LOOKING INFORMATION (FLI) AND MULTIPLE SCENARIOS

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

Macroeconomic factors and FLI are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.



**EXPERIENCED CREDIT JUDGMENT**

The Bank’s ECL allowance methodology requires the Bank to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results in all reporting periods.

**EXPECTED LIFE**

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

**DEFINITION OF DEFAULT AND WRITE-OFF**

Under IFRS 9, the Group considers a financial asset to be in default when:

- > the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- > the borrower is past due more than 90 days on any material credit obligation to the Group.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

**TRANSITION IMPACT**

The Bank will record an adjustment to its opening 1 January, 2018 retained earnings, to reflect the application of the new requirements of Impairment at the adoption date and will not restate comparative periods.

The Bank estimates the IFRS 9 transition amount will reduce the Tier 1 capital ratio by approximately 99 basis points as at 1 January 2018. The estimated impact relates primarily to the implementation of the ECL requirements. The Bank continues to revise, refine and validate the impairment models and related process controls leading up to the 31 March 2018 reporting. The actual impacts of adopting the standards at 1 January 2018 may change because:

- > the Group has not finalised the testing and assessment of controls over its new IT systems;
- > the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

*Effective 1 January, 2018*

**REVENUE FROM CONTRACTS WITH CUSTOMERS**

On 28 May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces the previous revenue standard IAS 18 Revenue, and the related Interpretations on revenue recognition. The standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards and provides a single principle based framework to be applied to all contracts with customers that are in scope of the standard. Under the new standard revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. The standard introduces a new five step model to recognize revenue as performance obligations in a contract are satisfied. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments, and as such will impact the businesses that earn fee and commission revenue.

On 12 April 2016, the IASB issued amendments to IFRS 15 Revenue from Contracts with Customers. The amendments provide additional clarification on the identification of a performance obligation in a contract, determining the principal and agent in an agreement, and determining whether licensing revenues should be recognized at a point in time or over a specific period. The amendments also provide additional practical expedients that can be used on transition to the standard.

The Bank will adopt the standard and its amendments as of 1 January 2018 and plans to use the modified retrospective approach. Under this approach, the Bank will recognize the cumulative effect of initially applying the standard as an adjustment to the opening balances of retained earnings as of 1 January 2018, without restating comparative periods. Additional disclosures will be required in order to explain any significant changes between reported results and results had the previous revenue standard been applied.

The standard does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Bank's revenue, including interest income, interest expense, trading revenue and securities gains which are covered under IFRS 9 Financial Instruments.

The implementation of the standard is being led by the Finance Department in coordination with the business segments. The areas of focus for the Bank's assessment of impact are fees and commission income. The Bank has been working to identify and review the customer contracts within the scope of the new standard. While the assessment is not complete, the timing of the Bank's revenue recognition of fees and commissions within the scope of this standard is not expected to materially change. The classification of certain contract costs (whether presented gross or offset against non-interest income) continues to be evaluated and the final interpretation may impact the presentation of certain contract costs. The Bank is also evaluating the additional disclosures that may be relevant and required.

### 3. BASIS OF PREPARATION

#### 3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standard Board (IASB) and applicable requirements of the laws of the U.A.E. UAE Federal Law No 2 of 2015 ("UAE Companies Law of 2015") was issued on 1 April 2015 and has come into force on 1 July 2015.

#### 3.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

#### 3.3 Functional and presentation currency

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

The principal accounting policies are set out below.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Basis of consolidation

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

- > power over the investee
- > exposure, or has rights, to variable returns from its involvement with the investee
- > the ability to use its power over the investee 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 and 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 and 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 profit or loss 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 attributable to the owners of the Bank and to the non-controlling interests.

Total comprehensive income of the subsidiaries is attributable to the owners of the Group and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

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

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

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to statement of profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 issued in 2010, when applicable, the cost on initial

recognition of an investment in an associate or a joint venture.

**4.2 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Banks, deposits and balances due from banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

**4.3 Reverse-repo placements**

Securities sold subject to a commitment to repurchase them at a predetermined price at a specified future date (repos) are continued to be recognised in the consolidated statement of financial position and a liability is recorded in respect of the consideration received under repo borrowings. The difference between sale and repurchase price is treated as interest expense using the effective interest rate yield method over the life of the agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position. Amounts placed under these agreements are included as an asset under reverse-repo placements. The difference between purchase and resale price is treated as interest income using the effective yield method over the life of the agreement.

**4.4 Financial instruments**

**4.4.1 Initial recognition**

The Group recognises a financial asset or liability in its consolidated statement of financial position only when it becomes party to the contractual provisions of that instrument.

**4.4.2 Initial measurement**

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

attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of profit or loss.

#### 4.4.3 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

##### *Classification of financial assets*

Balances with central banks, due from banks and financial institutions, financial assets and certain items in receivables and other assets that meet the following conditions are subsequently measured at amortised cost less impairment loss and deferred income, if any (except for those assets that are designated as at fair value through profit or loss on initial recognition):

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

All other financial assets are subsequently measured at fair value.

##### *Financial assets measured at amortised cost*

The effective interest rate method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income over the relevant period. The effective interest rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

Income is recognised in the consolidated statement of profit or loss on an effective interest rate basis for financing and investing instruments measured subsequently at amortised cost.

##### *Financial assets measured at FVTPL*

Investments in equity instruments are classified as financial assets measured at FVTPL, unless the Group designates fair value through other comprehensive income (FVTOCI) at initial recognition.

Financial assets that do not meet the amortised cost criteria described above, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL.

Financial assets (other than equity instruments) may be designated at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

Financial assets are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met.

Reclassification of financial assets (other than equity instruments) designated as at FVTPL at initial recognition is not permitted.

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognised in the consolidated statement of profit or loss at the end of each reporting period. The net gain or loss recognised in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 39.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated statement of profit or loss when the Group's right to receive the dividends is established.

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



A financial asset is held for trading if:

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

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

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

4.5 Definition of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account when pricing the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in IAS 36.

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

- > The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- > The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- > The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

4.6 Investment properties

Investment properties are held to earn rental income and/or capital appreciation. Investment properties include cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment properties are reported at valuation based on fair value at the end of the reporting period. The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated statement of profit or loss in the period in which these gains or losses arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

4.7 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

	Years
Buildings	20 - 40
Furniture and office equipment	2 - 6
Installation, partitions and decorations	3 - 4
Leasehold improvements	5 - 10
Motor vehicles	3

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of other comprehensive income when incurred.

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated statement of profit or loss.

Capital work-in-progress is carried at cost, less any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

4.8 Intangible assets acquired separately

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortisation is charged so as to write off the cost of intangible assets, over their estimated useful lives using the straight-line method as follows:

	Years
Banking license	Indefinite
Legal corporate setup in Lebanon	10
Customer base	10
Branch network	10

4.9 Impairment of tangible and intangibles

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

The 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of 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, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated statement of 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.



4.10 Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period.

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances, where the carrying amount is reduced through the use of an allowance account. When a loan is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of loans and advances measured at amortised costs are assessed by the Group as follows:

*Individually assessed loans*

Individually assessed loans mainly represent 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. Doubt about the borrower's ability to meet payment obligations generally arises when:

- a) Principal and interest are not serviced as per contractual terms; and
- b) When there is significant deterioration in the borrower's financial condition and the amount expected to be realised from disposal of collateral, if any, is not likely to cover the present carrying value of the loan.

Impaired loans are measured on the basis of the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

Impairment loss is calculated as the difference between the loan's carrying value and its present impaired value.

*Collectively assessed loans*

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

- a) Performing loans
- b) Retail loans with common features and which are not individually significant.

*Performing loans*

Where individually assessed loans are evaluated and no evidence of loss has been identified, these loans are classified as performing loans portfolios with common credit risk characteristics based on industry, product or loan rating. Impairment covers losses which may arise from individual performing loans that are impaired at the end of the reporting period but were not specifically identified as such until sometime in the future. 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.

***Retail loans with common features and which are not individually significant***

Impairment of retail loans is calculated by applying a formulaic approach which allocates progressively higher loss rates in line with the overdue instalment date.

***Renegotiated loans***

Where possible, the Group seeks to restructure financing exposures due to a deterioration in the borrower's condition. This may involve extending the payment arrangements and the agreement of new financing conditions. Once the terms have been renegotiated, the financing exposure is no longer considered past due. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

The facility continues to be subject to an individual or collective impairment assessment, calculated using the facility's original effective profit rate depending upon the customer complying with the revised terms and conditions and base upon performance criteria of the exposure such as minimum payment requirements and improvement in quality and effectiveness of collateral, to be moved to performing category.

**4.11 Derecognition of financial assets**

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

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

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss

previously accumulated in the investments fair value reserve is not reclassified to the consolidated statement of profit or loss, but is reclassified to retained earnings within equity.

**4.12 Offsetting**

Financial assets and liabilities are offset and reported net in the consolidated financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group trading activity.

The Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

**4.13 Assets acquired in settlement of debt**

The Group occasionally acquires real estate and other collateral in settlement of certain loans and advances. Such real estate and other collateral are stated at the lower of the net realisable value of the loans and advances and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation are recognised in the consolidated statement of profit or loss.

**4.14 Derivative financial instruments**

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward foreign exchange contracts, interest rate swaps and currency swaps.

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair



value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

For the purpose of hedge accounting, the Group classifies hedges into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

*Fair value hedges*

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated statement of profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated statement of profit or loss category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated statement of profit or loss category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used, is

amortised in the consolidated statement of profit or loss as part of the recalculated effective interest rate over the period to maturity.

*Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognised immediately in the consolidated statement of profit or loss as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated statement of profit or loss in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in other comprehensive income remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated statement of profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in other comprehensive income are immediately transferred to the consolidated statement of profit or loss and classified as trading revenue/loss.

*Derivatives that do not qualify for hedge accounting*

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated statement of profit or loss as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-interest revenue/loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at

fair value with unrealised gains or losses reported in the consolidated statement of profit or loss.

#### 4.15 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

The Group initially recognises financial liabilities such as deposits and debt securities issued on the date at which they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

##### *Financial liabilities at FVTPL*

Financial liabilities are classified at FVTPL where the financial liability is either held for trading or it is designated at FVTPL and measured at fair value. Determination is made at initial recognition and is not reassessed.

Financial liabilities measured at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognised in the consolidated statement of profit or loss at the end of each reporting period. The net gain or loss recognised in the consolidated statement of profit or loss. Other changes in fair value attributable to credit risk are recognized in other comprehensive income. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the Bank may transfer the cumulative gain or loss within equity. Fair value is determined in the manner described in note 39.

The Bank has elected to designate the issued bond as at FVTPL as the Bank will be managing and evaluating the performance of the issued bond alongside a group of financial assets in such a way that measuring that group at FVTPL results in more relevant information.

##### *Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial

liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

##### *De-recognition of financial liabilities*

Financial liabilities are derecognised when they are extinguished - that is when the obligation specified in the contract is discharged, cancelled or expired.

#### 4.16 Customers' deposits and syndicated loan

Customers' deposits and syndicated loan 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 interest method.

#### 4.17 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date; except for non-current assets (or disposal banks) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated statement of profit or loss.



The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

4.18 Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

4.19 Employees' end-of-service benefits

The Group provides end of service benefits for its expatriate employees in accordance with U.A.E. Labour Law. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

4.20 Provisions and contingent liabilities

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is

measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements.

4.21 Acceptances

Acceptances are recognised as financial liabilities in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments with respect to acceptances have been accounted for as financial assets and financial liabilities.

4.22 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable).

4.23 Leasing

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

*The Group as lessor*

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

*The Group as lessee*

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

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

**4.24 Revenue and expense recognition****4.24.1 Interest income and expense**

Interest income and interest expense are recognised in consolidated statement of profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transactions costs, fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the consolidated statement of profit or loss include:

- › interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- › the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expenses; and
- › the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net income from investments.

Fair value changes on the other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit and loss (FVTPL) are presented in net trading income from foreign currencies and net income from investment securities in the consolidated statement of profit or loss.

**4.24.2 Fees and commission income and expense**

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are generally recognised on an accrual basis when the related services are performed by the Group. When a loan commitment is not expected to result in the draw-down of a loan, commitment fees are recognised on a straight line basis over the commitment period.

Other fees and commission expenses are expensed as the related services are received.

**4.24.3 Dividend income**

Dividend income is recognised in the consolidated statement of profit or loss when the Group's right to receive such income is established. Usually this is the ex-dividend date for equity securities.

**4.25 Foreign currency transactions**

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets



and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the consolidated statement of financial position date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using rate of exchange at the date of initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Foreign currency differences are generally recognised in the statement of profit or loss.

For financial assets measured at FVTPL, the foreign exchange component is recognised in the consolidated statement of profit or loss. For financial assets measured at FVTOCI any foreign exchange component is recognised in other comprehensive income.

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

4.26 Foreign operations

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not AED, are translated into the Group's presentation currency at the rate of exchange ruling at the consolidated statement of financial position date. The results of branches, subsidiaries, joint ventures and associates whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity in the 'foreign exchange reserve'.

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated statement of profit or loss on

proportionate basis except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated statement of profit or loss. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

4.27 Fiduciary activities

The Group acts as trustee/manager and in other capacities that result in holding or placing of assets in a fiduciary capacity on behalf of trusts or other institutions. Such assets and income arising thereon are not included in the Group's consolidated financial statements as they are not assets of the Group.

4.28 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas subsidiary in accordance with the fiscal regulations of the respective country in which the subsidiary operate.

4.29 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

4.30 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY

While applying the accounting policies as stated in Note 4, the management of the Group has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period of the revision 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.

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

### 5.1 Critical accounting judgments

#### i. Impairment of financial assets measured at amortised cost and loans and advances

The Group's accounting policy for allowances in relation to impaired financial assets carried at amortised cost is described in Note 4. Impairment is calculated on the basis of discounted estimated

future cash flows or by applying a statistical modelling 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 affect the consolidated statement of profit or loss accordingly.

### LOANS AND ADVANCES

The impairment allowance for loan losses is established through charges to the consolidated statement of profit or loss in the form of an impairment allowance for doubtful loans and advances.

#### *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.

The following factors are considered by management when determining the allowance for impairment on individual loans and advances which are significant:

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

The Group's policy requires quarterly review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability. Impaired loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

#### *Collectively assessed loans*

Collective assessment of allowance for impairment



is made for overdue retail loans with common features which are not individually significant and performing loans which are not found to be individually impaired. The following factors are considered by management when determining allowance for impairment for such loans:

Retail loans - All the loans falling under similar overdue category are assumed to carry similar credit risk and allowance for impairment is taken on a gross basis.

Other performing loans - The management of the Group assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the end of the reporting period.

**ii. Useful lives of property and equipment and intangible assets**

Management reviews the residual values and estimated useful lives of property and equipment and intangible assets at the end of each annual reporting period in accordance with IAS 16 and IAS 38. Management determined that current year expectations do not differ from previous estimates based on its review.

**iii. Classification of investments**

The classification and measurement of the financial assets depends on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Management is satisfied that the Group investment in securities are appropriately classified and measured.

Financial assets that are measured at amortised cost are those assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit.

Financial assets that are measured at FVTOCI are investments in equity instruments and investment funds that are not held to benefit from changes in their fair value and are not held for trading. The management believes that designating these instruments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments than holding the investments at fair value through profit and loss.

Financial assets that are measured at FVTPL are either held for trading or designated as FVTPL.

**iv. Determination of control over investee**  
Management applies its judgement to determine whether control indicators as set out in 4.1 exist to establish that the Group controls an investee.

**v. Impairment of goodwill**  
On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

**5.2 Key sources of estimation of uncertainty**  
The key assumptions concerning the future, and other key sources of estimation of uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

**i. Valuation of unquoted equity investments**  
The valuation of unquoted equity investments is normally based on recent market transactions done on an arm's length basis, or the fair value of another instrument that is substantially the same, or the expected cash flows discounted at current rates for similar instruments, or on other valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of the unquoted equity investments.

**ii. Derivative financial instruments**  
Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable

prices exist, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

- a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management's judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure, and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components,

management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

iii. Valuation of investment properties

The Group values its investment properties at fair value on the basis of market valuations prepared by an independent chartered surveyor and property consultant. The fair values were derived by using appropriate valuation methods. The valuations are based on assumptions such as comparison with sale price of land for comparable developments, plot sizes and the recent value of any expected timing of payments and receipts in short-term to long-term, which are mainly on market conditions existing at the reporting date. Therefore, any future change in the market conditions could change significantly the fair value of these properties.

All investments properties have been classified as Level 3 in the fair value hierarchy. Level 3 reconciliation has been presented in note 11.

6. CASH AND BALANCES WITH CENTRAL BANKS

(a) The analysis of the Group's cash and balances with central banks is as follows:

	2017 AED'000	2016 AED'000
Cash on hand	58,403	50,165
Statutory deposits (note 6.1)	1,323,862	1,138,555
Current accounts	450,268	1,011,892
Certificates of deposits	3,755,073	2,108,275
	<hr/> 5,587,606 <hr/> =====	<hr/> 4,308,887 <hr/> =====

(b) The geographical analysis of the cash and balances with central banks is as follows:

	2017 AED'000	2016 AED'000
Banks abroad	3,838,043	1,712,280
Banks in the U.A.E.	1,749,563	2,596,607
	<hr/> 5,587,606 <hr/> =====	<hr/> 4,308,887 <hr/> =====



8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 The Group is required to maintain statutory deposits with Central Bank of UAE and Central Bank of Lebanon on demand, time and other deposits as per the statutory requirements. The statutory deposits with the Central Banks are not available to finance the day to day operations of the Group. However, as per

notice 4310/2008, the Central Bank of the U.A.E. has allowed banks to borrow up to 100% of their AED and US\$ reserve requirement limit. As at 31 December 2017, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 718 million (31 December 2016: AED 534 million).

7. DEPOSITS AND BALANCES DUE FROM BANKS

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	2017 AED'000	2016 AED'000
Demand	289,304	537,573
Time	213,914	154,100
	<u>503,218</u>	<u>691,673</u>
	=====	=====

(b) The geographical analysis of the deposits and balances due from banks is as follows:

	2017 AED'000	2016 AED'000
Banks abroad	471,395	656,250
Banks in the U.A.E.	31,823	35,423
	<u>503,218</u>	<u>691,673</u>
	=====	=====

8. REVERSE-REPO PLACEMENTS

(a) The analysis of the Group's repurchase agreements is as follows:

	2017 AED'000	2016 AED'000
Banks abroad	272,821	121,417
Banks in the U.A.E.	1,594,977	518,059
	<u>1,867,798</u>	<u>639,476</u>
	=====	=====

The Bank entered into reverse-repo agreements under which bonds with fair value of AED 1,885 million (2016: AED 649 million) were received as collateral against cash placements. The risks and rewards relating to these bonds remain with the counter parties.

**9. LOANS AND ADVANCES, NET**

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
Overdrafts	<b>6,617,800</b>	7,822,091
Commercial loans	<b>10,142,743</b>	9,392,326
Bills discounted	<b>2,136,416</b>	1,096,629
Other advances	<b>541,211</b>	669,106
	<hr/>	<hr/>
Gross amount of loans and advances	<b>19,438,170</b>	18,980,152
Less: Allowance for impairment	<b>(1,555,122)</b>	(1,583,551)
Less: Interest in suspense	<b>(406,719)</b>	(321,604)
	<hr/>	<hr/>
Net loans and advances	<b>17,476,329</b>	17,074,997
	<hr/>	<hr/>

(b) The geographic analysis of the gross loans and advances of the Group is as follows:

	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
Loans and advances in the U.A.E.	<b>16,782,025</b>	16,288,853
Loans and advances abroad	<b>2,656,145</b>	2,691,299
	<hr/>	<hr/>
	<b>19,438,170</b>	18,980,152
	<hr/>	<hr/>

(c) Loans and advances are stated net of allowance for impairment. The movement in the allowance during the year was as follows:

	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
At 1 January	<b>1,583,551</b>	1,524,442
Additions through collective impairment, net	<b>6,289</b>	28,202
Additions (Note 32)	<b>351,302</b>	183,722
Transfer from interest in suspense	<b>-</b>	11,000
Write-offs	<b>(250,874)</b>	(41,549)
Write-backs	<b>(135,146)</b>	(122,266)
	<hr/>	<hr/>
Balance at the end of the year	<b>1,555,122</b>	1,583,551
	<hr/>	<hr/>

Additions through collective impairment represent the charges raised to clients upon sanctioning/ renewing any facilities on the limit and allocated directly to collective impairment provision.



8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(d) The movement in the interest in suspense account during the year is as follows:

	2017 AED'000	2016 AED'000
At 1 January	321,604	270,843
Additions	108,518	87,394
Transfer to specific provision	-	(11,000)
Write-offs	(17,911)	(21,830)
Write-backs	(5,492)	(3,803)
Balance at the end of the year	406,719	321,604
	=====	=====

(e) The composition of the loans and advances portfolio by industry is as follows:

	2017 AED'000	2016 AED'000
<b>ECONOMIC SECTOR</b>		
Services	5,976,427	5,612,695
Trading	5,610,067	7,267,107
Manufacturing	2,493,138	2,454,930
Personal loans for commercial purposes	2,145,998	668,178
Government	1,211,384	292,581
Construction	720,921	949,431
Financial institutions	441,751	327,499
Transport and communication	365,704	371,605
Personal loans for individual purposes	325,229	544,650
Agriculture	63,017	34,928
Mining and quarrying	4,021	301,727
Public utilities	2,727	713
Other	77,786	154,108
	19,438,170	18,980,152
Less: Allowance for impairment	(1,555,122)	(1,583,551)
Less: Interest in suspense	(406,719)	(321,604)
	17,476,329	17,074,997
	=====	=====

(f) The composition of the non-performing loans and advances portfolio by industry is as follows:

	2017 AED'000	2016 AED'000
<b>ECONOMIC SECTOR</b>		
Trading	1,104,213	773,022
Manufacturing	194,862	141,667
Transport and communication	56,455	86,616
Personal loans for commercial purposes	21,094	15,277
Construction	15,181	1,705
Personal loans for individual purposes	7,400	15,501
Services	1,225	28,741
	1,400,430	1,062,529
	=====	=====

**10. OTHER FINANCIAL ASSETS**

(a) The analysis of the Group's other financial assets is as follows:

	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
<b>OTHER FINANCIAL ASSETS MEASURED AT FAIR VALUE</b>		
(i) Investments measured at FVTPL		
Quoted equity	<b>103,453</b>	77,510
	<b>103,453</b>	77,510
(ii) Investments measured at FVTOCI		
Quoted equity	<b>145,416</b>	110,314
Unquoted equity	<b>564,417</b>	913,010
	<b>709,833</b>	1,023,324
Total other financial assets measured at fair value	<b>813,286</b>	1,100,834
Other financial assets measured at amortised cost		
Debt securities	<b>794,585</b>	747,237
Total other financial assets	<b>1,607,871</b>	1,848,071
	=====	=====

The majority of the quoted investments are listed on the securities exchanges in the U.A.E. (Abu Dhabi Securities Exchange and Dubai Financial Market).

(b) The composition of the other financial assets by geography is as follows:

	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
United Arab Emirates	<b>474,196</b>	397,448
G.C.C. countries (other than U.A.E.)	-	8,499
Middle East (other than G.C.C. countries)	<b>1,103,552</b>	1,442,017
Europe	<b>30,123</b>	107
	<b>1,607,871</b>	1,848,071
	=====	=====

(c) Other financial assets measured at FVTOCI are strategic equity investments that are not held to benefit from changes in their fair value and are not held for trading. The management believes therefore that designating these investments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments rather than fair valuing through profit and loss.

During the year ended 31 December 2017, 766 thousand shares of equity securities were acquired at an amount of AED 38,122 thousand.

(d) During the year ended 31 December 2017, dividends received from financial assets measured at FVTOCI amounting to AED 2 million (2016: AED 3 million) have been recognised as investment income in the consolidated statement of profit or loss.



8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INVESTMENT PROPERTIES

Details of investment properties are as follows:

	PLOTS OF LAND IN UAE AED'000	COMMERCIAL AND RESIDENTIAL UNITS IN UAE AED'000	TOTAL AED'000
Fair value at 1 January 2016	36,377	234,064	270,441
Transfer from assets acquired in settlement of debt (Note 13)	-	10,150	10,150
Decrease in fair value during the year	-	(66)	(66)
Additions /disposals, net during the year	-	812	812
Fair value at 31 December 2016	36,377	244,960	281,337
Decrease in fair value during the year	(2,401)	(7,114)	(9,515)
Additions /disposals, net during the year	42	312,994	313,036
Fair value at 31 December 2017	34,018	550,840	584,858

The fair value of the Group's investment properties is estimated annually by considering recent prices for similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at these prices. In estimating the fair value of the properties, the highest and best use of the properties is their current use. As at 31 December 2017, the valuations were carried out by professional valuers not related to the Group who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued.

12. GOODWILL AND OTHER INTANGIBLES

The analysis of the Group's goodwill and other intangibles is as follows:

EMIRATES LEBANON BANK S.A.L

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share in the net identifiable assets, liabilities and contingent liabilities of a Lebanese branch of a multinational bank acquired in 2008.

	2017 AED'000	2016 AED'000
Goodwill	184,733	184,733
OTHER INTANGIBLES		
Banking license	18,365	18,365
Legal corporate setup in Lebanon	8,593	12,887
Customer base	9,991	11,240
Branch network	732	1,099
	37,681	43,591
Total	222,414	228,324

The recoverable amount of the assets acquired in the business combination (cash generating unit) described above is determined based on fair value less cost of disposal which is determined to be higher than the asset's carrying value using the market approach.

The movement on other intangible assets during the year is as follows:

OTHER INTANGIBLES	LEGAL CORPORATE				TOTAL AED'000
	BANKING LICENCE AED'000	SETUP IN LEBANON AED'000	CUSTOMER BASE AED'000	BRANCH NETWORK AED'000	
Balance as at 1 January 2016	18,365	17,181	12,489	1,466	49,501
Amortisation in 2016	-	(4,294)	(1,249)	(367)	(5,910)
Balance as at 31 December 2016	<b>18,365</b>	<b>12,887</b>	<b>11,240</b>	<b>1,099</b>	<b>43,591</b>
Amortisation in 2017	-	(4,294)	(1,249)	(367)	(5,910)
Balance as at 31 December 2017	<b>18,365</b>	<b>8,593</b>	<b>9,991</b>	<b>732</b>	<b>37,681</b>
	=====	=====	=====	=====	=====

#### MUWAILEH CAPITAL FZC

(i) On 26 April 2017, the Bank acquired 90% of Muwaileh Capital FZC, a Sharjah Airport International Free Zone company. The acquisition was in cash and the effective date of acquisition was 31 May 2017. The operations of the Muwaileh Capital FZC have been fully transferred to the Bank on that date. The acquisition is accounted for using the purchase method of accounting, and the financial statements of Muwaileh Capital FZC have been consolidated.

As per the sales and purchase agreement, the purchase price was finalized based on the completion of the due diligence and the negotiations for the determination of the final net assets fair value. The difference between the consideration paid and the fair value of the net assets at the transaction date has been booked under goodwill. The amount recognized in goodwill at the transaction date amounted to AED 110.73 million.

The transaction has been accounted for during the second quarter of 2017 as follows:

	Net carrying value AED'000
Consideration paid	<b>225,000</b>
Fair value of net assets acquired	<b>(114,274)</b>
<b>Goodwill</b>	<b>110,726</b>
	=====

#### EL CAPITAL FZC

(ii) On 14 December 2016, the Board of Directors of the Bank decided to acquire EL Capital FZC that owns 20% of share capital of Emirates Lebanon Bank S.A.L.

As per the sales and purchase agreement, the purchase price was finalized based on the completion of the due diligence and the negotiations for the determination of the final net assets fair value. The difference between the consideration paid and the fair value of the net assets at the transaction date has been booked under goodwill. The amount recognized in goodwill at the transaction date amounted to AED 88.83 million.

The transaction has been accounted for during the last quarter of 2017 as follows:

	Net carrying value AED'000
Consideration paid	305,777
Fair value of net assets acquired	(216,951)
<b>Goodwill</b>	<b>88,826</b>
	=====



13. OTHER ASSETS

	2017 AED'000	2016 AED'000
Acceptances – contra (Note 19)	629,651	557,288
Assets acquired in settlement of debt	1,262,546	833,730
Clearing receivables and accrued income	97,340	76,125
Interest receivable	40,943	23,396
Prepayments	23,269	13,719
Positive fair value of derivatives (Note 14)	5,945	1,682
Receivable from sale of investments	-	200,000
Other	133,038	44,068
	<u>2,192,732</u>	<u>1,750,008</u>
	=====	=====

Assets acquired in settlement of debt amounting to AED 1,262 million (2016: AED 834 million) are net of AED 6 million unrealized losses (2016: AED 3 million unrealized losses). Of this amount AED 1,238 million (2016: AED 809 million) pertains to the properties and plots of lands acquired in settlement of debt. Fair valuations of the properties and plots of land were carried out by independent valuers having appropriate professional qualifications and are based on recent experience in the location and category of the properties and plots of land being valued. The fair value of those properties and plots of land as at 31 December 2017 amounted to AED 1,332 million (2016: AED 926 million) resulting in a book value which is understated by AED 94 million (2016: AED 117 million).

As per UAE Central Bank regulation, the Bank can hold the real estate assets for a maximum period of three years and can extend the holding after obtaining Central Bank approval. The Bank can also rent the properties and earn rental income.

The Group reports under other assets, positive fair value of derivative contracts used by the Group in the ordinary course of business. Refer to Note 14 below for further details about the nature and type of derivative contracts utilised by the Group, together with the notional amounts and maturities.

14. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business the Group enters into various types of transactions that involve derivatives. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instruments, reference rate, or index. Derivative financial instruments which the Group enters into include forwards and swaps.

The Group uses the following derivative financial instruments for both hedging and non-hedging purposes.

FORWARD CURRENCY TRANSACTIONS -

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

**SWAP TRANSACTIONS -** Currency swaps are commitments to exchange one set of cash flows for another. Currency swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain cross-currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. Under interest rate swaps, the Bank agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.

This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts, and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

**DERIVATIVE RELATED CREDIT RISK –** Credit risk with respect to derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The Group enters into derivative contracts with a number of financial institutions of good credit rating.

DERIVATIVES HELD OR ISSUED FOR HEDGING PURPOSES –

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange rates. The Group uses forward foreign exchange contracts to hedge exchange rate risks. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

The following table shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity, and the nature of the risk being hedged.

The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These

notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the fair value of the derivatives, nor market risk.

#### NOTIONAL AMOUNT BY TERM TO MATURITY

	POSITIVE FAIR VALUE AED'000	NEGATIVE FAIR VALUE AED'000	NOTIONAL AMOUNT AED'000	WITHIN 3 MONTHS AED'000	3-12 MONTHS AED'000	1-5 YEARS AED'000
<b>2017</b>						
Interest rate swaps	4,332	(39,373)	3,853,693	-	-	3,853,693
Currency swaps	1,612	-	2,892,156	2,892,156	-	-
Forward foreign exchange contracts	1	(659)	108,067	91,142	16,925	-
<b>Total</b>	<b>5,945</b>	<b>(40,032)</b>	<b>6,853,916</b>	<b>2,983,298</b>	<b>16,925</b>	<b>3,853,693</b>
<b>2016</b>						
Interest rate swaps	1,672	(6,453)	1,996,257	159,757	-	1,836,500
Currency swaps	-	(183)	497,833	497,833	-	-
Forward foreign exchange contracts	10	(53)	75,972	42,793	33,179	-
<b>Total</b>	<b>1,682</b>	<b>(6,689)</b>	<b>2,570,062</b>	<b>700,383</b>	<b>33,179</b>	<b>1,836,500</b>

#### 15. PROPERTY AND EQUIPMENT

	LAND & BUILDINGS AED'000	FURNITURE & OFFICE EQUIPMENT AED'000	LEASEHOLD IMPROVEMENTS INSTALLATION, PARTITIONS AND DECORATIONS AED'000	MOTOR VEHICLES AED'000	TOTAL AED'000
<b>COST</b>					
At 1 January 2016	238,392	101,713	96,332	5,503	441,940
Additions	-	11,842	12,678	712	25,232
Disposals/ write-offs	-	(7,129)	(5,284)	(1,063)	(13,476)
At 31 December 2016	238,392	106,426	103,726	5,152	453,696
Additions	2,765	12,033	8,258	607	23,663
Disposals	-	(505)	(279)	(1,096)	(1,880)
<b>AT 31 DECEMBER 2017</b>	<b>241,157</b>	<b>117,954</b>	<b>111,705</b>	<b>4,663</b>	<b>475,479</b>
<b>ACCUMULATED DEPRECIATION</b>					
At 1 January 2016	29,155	85,817	47,947	3,815	166,734
Charge for the year	5,055	10,543	8,938	850	25,386
Disposals/ write-offs	-	(7,112)	(4,511)	(997)	(12,620)
At 31 December 2016	34,210	89,248	52,374	3,668	179,500
Charge for the year	5,067	11,515	11,436	778	28,796
Disposals	-	(468)	(129)	(1,042)	(1,639)
<b>AT 31 DECEMBER 2017</b>	<b>39,277</b>	<b>100,295</b>	<b>63,681</b>	<b>3,404</b>	<b>206,657</b>
<b>NET BOOK VALUE:</b>					
<b>AT 31 DECEMBER 2017</b>	<b>201,880</b>	<b>17,659</b>	<b>48,024</b>	<b>1,259</b>	<b>268,822</b>
At 31 December 2016	204,182	17,178	51,352	1,484	274,196

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. SUBSIDIARIES

(a) The Bank’s interests, held directly or indirectly, in the subsidiaries are as follows:

NAME OF SUBSIDIARY	PROPORTION OF OWNERSHIP INTEREST		YEAR OF INCORPORATION	COUNTRY OF INCORPORATION	PRINCIPAL ACTIVITIES
	2017	2016			
Emirates Lebanon Bank S.A.L.	100%	80%	1965	Lebanon	Financial institution
El Capital FZC	100%	-	2007	U.A.E	Investment in a financial institution
BOS Real Estate FZC	100%	100%	2009	U.A.E.	Real estate development activities
BOS Capital FZC	100%	100%	2009	U.A.E.	Investment
Polyco General Trading L.L.C.	100%	100%	2008	U.A.E.	General trading
Borealis Gulf FZC	100%	100%	2011	U.A.E.	Investment & real estate development activities
BOS Funding Limited	100%	100%	2015	Cayman Islands	Financing activities
Muwaileh Capital FZC	90%	-	2010	U.A.E.	Developing of real estate and related activities

b) Emirates Lebanon Bank S.A.L summarised statements of financial position, comprehensive income and cash flows as at and for the years ended 31 December 2017 and 2016:

	2017 AED'000	2016 AED'000
<b>STATEMENT OF FINANCIAL POSITION</b>		
Total assets	5,812,229	5,834,519
	=====	=====
Total liabilities	4,775,351	4,821,438
	=====	=====
Equity	1,036,878	1,013,081
	=====	=====
Dividends paid to non-controlling interests	1,469	2,204
	=====	=====
<b>STATEMENT OF COMPREHENSIVE INCOME</b>		
Interest income	279,632	264,809
	=====	=====
Profit for the year	34,706	50,692
	=====	=====
Total comprehensive income	34,779	50,757
	=====	=====
<b>STATEMENT OF CASH FLOWS</b>		
Net cash flows (used in)/ generated from operating activities	(108,991)	203,681
Net cash flows used in investing activities	(7,922)	(96,203)
Net cash flows used in financing activities	(29,384)	(33,057)
	=====	=====
Net (decrease)/ increase in cash flows during the year	(146,297)	74,421
	=====	=====



**17. CUSTOMERS' DEPOSITS**

The analysis of customers' deposits is as follows:

	<b>2017</b> <b>AED'000</b>	2016 AED'000
Current and other accounts	<b>3,742,322</b>	4,997,698
Saving accounts	<b>1,715,952</b>	1,727,095
Time deposits	<b>16,172,197</b>	13,012,124
	<b>21,630,471</b>	19,736,917
	=====	=====

**18. DEPOSITS AND BALANCES DUE TO BANKS**

The analysis of customers' deposits is as follows:

	<b>2017</b> <b>AED'000</b>	2016 AED'000
<b>STATEMENT OF FINANCIAL POSITION</b>		
Demand	<b>4,319</b>	5,867
Time	<b>82,803</b>	91,922
	<b>87,122</b>	97,789
	=====	=====

Due to banks represent due to:

	<b>2017</b> <b>AED'000</b>	2016 AED'000
Banks in the U.A.E.	<b>4,060</b>	4,246
Banks abroad	<b>83,062</b>	93,543
	<b>87,122</b>	97,789
	=====	=====

**19. OTHER LIABILITIES**

	<b>2017</b> <b>AED'000</b>	2016 AED'000
Acceptances – contra (Note 13)	<b>629,651</b>	557,288
Interest payable	<b>161,576</b>	83,962
Accrued expenses and others	<b>84,599</b>	90,997
Provision for employees' end of service benefits (Note 19.1)	<b>42,569</b>	40,597
Negative fair value of derivatives (Note 14)	<b>40,032</b>	6,689
Managers' cheques	<b>34,168</b>	18,039
Unearned income	<b>26,271</b>	38,325
	<b>1,018,866</b>	835,897
	=====	=====

**19.1** The movement in the provision for employees' end of service benefits is as follows:

	<b>2017</b> <b>AED'000</b>	2016 AED'000
At 1 January	<b>40,597</b>	39,374
Charged during the year	<b>6,574</b>	5,758
Payments during the year	<b>(4,602)</b>	(4,535)
At 31 December	<b>42,569</b>	40,597
	=====	=====

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. ISSUED BONDS

On 8 June 2015, the Bank raised financing by way of USD 500 million (equivalent to AED 1,836 million) in senior unsecured bonds (the "Bonds") issued by BOS Funding Limited, a wholly owned subsidiary of the Bank, incorporated in the Cayman Islands. The Bonds are fully guaranteed by the Bank, carry a fixed interest rate of 3.374 per cent per annum payable semi-annually and are listed on the Irish Stock Exchange.

On 28 February 2017, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 500 million (equivalent to AED 1,836 million) for a five year maturity at mid swaps plus 225 basis point, to yield 4.23%. The Notes were issued under the Bank's recently established Euro Medium Term Note (EMTN) Programme which is listed on the Irish Stock Exchange. The fair value and the change in that fair value that can be ascribed to changes in underlying credit risk are set out below:

	2017 AED'000	2016 AED'000
Fair value of issued bond	3,706,810	1,826,638
Changes in fair value of issued bond not attributable to changes in market conditions	(76,591)	(88,594)
Difference between carrying amount and amount contractually required to be paid at maturity	33,810	9,862

The Group estimates changes in fair value due to credit risk by estimating the amount of change in fair value that is not due to changes in market conditions that give rise to market risk.

21. CAPITAL AND RESERVES

(a) Issued and paid up capital

	2017		2016	
	Number of shares	AED'000	Number of shares	AED'000
Issued capital	2,100,000,000	2,100,000	2,100,000,000	2,100,000
	<u>2,100,000,000</u>	<u>2,100,000</u>	<u>2,100,000,000</u>	<u>2,100,000</u>
	=====	=====	=====	=====

(b) Statutory reserve

In accordance with the Bank's Articles of Association and Article (239) of the UAE Federal Law No. (2) of 2015, the Bank transfers 10% of annual profits, if any, to the statutory reserve until it is equal to 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

(c) Contingency reserve

In accordance with the Articles of Association of the Bank a contingency reserve is calculated at 10% of the profit for the year to be transferred to a contingency reserve until this reserve becomes 50% of the issued and paid up capital.

(d) General reserve

Transfers to general reserve are made based on the discretion of the Board of Directors and is subject to the approval of the shareholders at the annual general meeting.

**22. EARNINGS PER SHARE**

Earnings per share are computed by dividing the profit for the year by the average number of shares outstanding during the year as follows:

<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<b>2017</b>	<b>2016</b>
Profit attributable to owners of the Bank for the year (AED'000)	<b>266,088</b>	392,018
	=====	=====
Weighted average number of ordinary shares:		
Ordinary shares at the beginning of the year	2,100,000	2,100,000
Effect of scrip dividend issued during the year	-	-
Weighted average number of shares outstanding during the year (in thousands shares)	2,100,000	2,100,000
	=====	=====
<b>BASIC AND DILUTED EARNINGS PER SHARE (AED)</b>	<b>0.13</b>	0.19
	=====	=====

As at the reporting date, the diluted earnings per share is equal to the basic earnings per share as the Group has not issued any financial instruments that should be taken into consideration when the diluted earnings per share is calculated.

**23. TRANSACTIONS WITH OWNERS AND DIRECTORS OF THE GROUP****BANK OF SHARJAH****Dividends**

At the Annual General Meeting of the shareholders held on 29 April 2017, the shareholders approved a 7.66% dividends distribution amounting to AED 161 million (2015: 5.24% treasury shares distribution (110 million shares) amounting to AED 220 million which were acquired against settlement of loans).

**Directors' remuneration**

At the Annual General Meeting of the shareholders held on 29 April 2017, the shareholders of the Bank also approved Directors' remuneration of AED 7.5 million (2015: AED 7.5 million).

**Charity donations**

At the Annual General Meeting of the shareholders held on 29 April 2017, the shareholders also approved charitable donations of AED 7.5 million (2015: AED 2.5 million).

**Transfer to reserves**

At the Annual General Meeting of the shareholders held on 29 April 2017, the shareholders also approved the appropriation of AED 50 million (2015: AED 30 million) to contingency reserves.

**EMIRATES LEBANON BANK****Cash dividend**

At the Annual General Meeting held on 11 February 2017 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, the shareholders approved a cash dividend for an amount of AED 7.3 million (2015: cash dividend of AED 11.0 million) out of which the non-controlling interest share amounted to AED 1.5 million (2015: AED 2.2 million).

**Directors' remuneration**

At the Annual General Meeting held on 11 February 2017 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, approved Directors' remuneration of AED 3.6 million (2015: AED 3.1 million) out of which the non-controlling interest share amounted to AED 0.7 million (2015: AED 0.6 million).



## 8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 24. COMMITMENTS AND CONTINGENT LIABILITIES

	2017 AED'000	2016 AED'000
Financial guarantees for loans	629,622	424,325
Other guarantees	1,736,696	2,034,327
Letter of credit	1,372,439	1,223,786
Capital commitments	17,496	32,753
	<b>3,756,253</b>	3,715,191
Irrevocable commitments to extend credit	1,873,569	1,383,783
	<b>5,629,822</b>	5,098,974
	=====	=====

These contingent liabilities have off-balance sheet credit risk as only the related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash-flows.

Credit-related commitments include commitments to extend credit, standby letters of credit, and guarantees which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

### 25. CASH AND CASH EQUIVALENTS

	2017 AED'000	2016 AED'000
Cash and balances with central banks (Note 6)	5,587,606	4,308,887
Deposits and balances due from banks (Note 7)	503,218	691,673
Reverse-repo placements (Note 8)	1,867,798	639,476
Deposits and balances due to banks (Note 18)	(87,122)	(97,789)
	<b>7,871,500</b>	5,542,247
	=====	=====
Less: Deposits and balances due from banks - original maturity more than six months	(1,433,890)	(1,387,847)
Less: Statutory deposits with central banks (Note 6)	(1,323,862)	(1,138,555)
	<b>5,113,748</b>	3,015,845
	=====	=====

### 26. FIDUCIARY ASSETS

The Group holds investments amounting to AED 0.7 billion (31 December 2016: AED 0.7 billion) which are held on behalf of customers and not treated as assets in the consolidated statement of financial position.

**27. INTEREST INCOME**

	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
Loans and advances	<b>943,043</b>	908,476
Certificates of deposit and treasury bills with central banks and debt instruments	<b>130,248</b>	108,698
Net interest income on swaps	<b>26,503</b>	19,120
Placements with banks	<b>30,641</b>	14,356
Reverse-repo placements	<b>22,384</b>	3,687
	<b>1,152,819</b>	1,054,337
	=====	=====

**28. INTEREST EXPENSE**

	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
Customers' deposits	<b>558,549</b>	462,620
Issued bonds	<b>125,190</b>	61,964
Interest on cash contribution towards capital due to non-controlling interests	<b>-</b>	6,611
Banks' deposits	<b>3,243</b>	1,160
	<b>686,982</b>	532,355
	=====	=====

**29. NET FEE AND COMMISSION INCOME**

	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
Corporate banking credit related fees	<b>170,035</b>	97,774
Trade finance activities	<b>37,657</b>	42,383
Letters of guarantee	<b>25,170</b>	28,596
Other	<b>4,021</b>	5,226
	<b>236,883</b>	173,979
	=====	=====

**30. INCOME ON INVESTMENTS**

	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
Dividends	<b>2,434</b>	2,798
Realized and unrealized gain on investments measured at FVTPL	<b>30,102</b>	752
Net trading (loss)/ income	<b>(975)</b>	5,995
	<b>31,561</b>	9,545
	=====	=====

**31. OTHER INCOME**

	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
Income on sale of fixed assets	<b>42</b>	209
Rental income and others	<b>33,856</b>	30,990
	<b>33,898</b>	31,199
	=====	=====

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2017 AED'000	2016 AED'000
Collective impairment of loans and advances	2,608	33
Specific provision of loans and advances	348,694	183,689
Direct write-off	-	1,113
Total charge for the year (Note 9)	351,302	184,835
Write backs	(140,509)	(122,498)
	210,793	62,337
	=====	=====

33. GENERAL AND ADMINISTRATIVE EXPENSES

	2017 AED'000	2016 AED'000
Salaries and employees related expenses	162,256	166,666
Depreciation on property and equipment (Note 15)	28,796	25,386
Rent leases	21,765	19,395
Consultancy and expert fees	7,119	7,752
Others *	70,236	57,043
	290,172	276,242
	=====	=====

\*Others include an amount of AED 8.2 million (2016: AED 7.1 million) representing social contributions made during the year ended 31 December 2017.

34. RELATED PARTY TRANSACTIONS

The Group enters into transactions with major Shareholders, Directors, Senior Management and their related concerns in the ordinary course of business at commercial interest and commission rates.

Transactions within the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

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

	2017 AED'000	2016 AED'000
Loans and advances	647,927	2,273,609
Letters of credit, guarantee and acceptances	122,045	284,170
	769,972	2,557,779
Collateral deposits	207,313	233,393
Net exposure	562,659	2,324,386
	=====	=====
Other deposits	154,394	112,512
	=====	=====



As at 31 December 2017, entities related to one of the Directors was nil (31 December 2016: 69% of the total aforementioned net exposure).

	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
Interest income	<b>50,104</b>	99,881
	=====	=====
Interest expense	<b>9,277</b>	10,657
	=====	=====
<b>COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL:</b>		
Short term benefits	<b>8,440</b>	18,601
Directors fees	<b>8,227</b>	8,117
End of service benefits	<b>4,014</b>	3,452
	-----	-----
Total compensation as at 31 December	<b>20,681</b>	30,170
	=====	=====

No impairment loss has been recognised against balances outstanding with key management personnel and other related parties.

### 35. SEGMENTAL INFORMATION

#### 35.1 IFRS 8 Operating Segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

#### 35.2 Products and services from which reportable segments derive their revenues

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is specifically focused on the type of business activities undertaken as a Group. For operating purposes, the Group is organised into two major business segments:

- (i) Commercial Banking, which principally provides loans and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and
- (ii) Investment Banking, which involves the management of the Group's investment portfolio.

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table presents information regarding the Group's operating segments for the year ended 31 December 2017:

	COMMERCIAL BANKING AED'000	INVESTMENT BANKING AED'000	UNALLOCATED AED'000	TOTAL AED'000
<b>OPERATING INCOME</b>				
Net interest income	424,344	41,493	-	465,837
Net fee and commission income	236,883	-	-	236,883
Exchange profit	21,322	-	-	21,322
Investment income	-	31,561	-	31,561
Revaluation (loss) on investment properties	-	(9,515)	-	(9,515)
Other income	13,202	20,696	-	33,898
<b>TOTAL OPERATING INCOME</b>	<b>695,751</b>	<b>84,235</b>	<b>-</b>	<b>779,986</b>
<b>OTHER MATERIAL NON-CASH ITEMS</b>				
Net impairment charge on financial assets	(210,793)	-	-	(210,793)
Depreciation of property and equipment	-	-	(28,796)	(28,796)
General and administrative expenses	(222,170)	(39,206)	-	(261,376)
Amortization of intangible assets	-	-	(5,910)	(5,910)
Income tax expenses – overseas	-	-	(8,257)	(8,257)
<b>NET PROFIT FOR THE YEAR</b>	<b>262,788</b>	<b>45,029</b>	<b>(42,963)</b>	<b>264,854</b>
<b>SEGMENT ASSETS</b>	<b>25,481,493</b>	<b>3,197,803</b>	<b>1,831,904</b>	<b>30,511,200</b>
	=====	=====	=====	=====
<b>SEGMENT LIABILITIES</b>	<b>22,347,244</b>	<b>3,706,810</b>	<b>389,215</b>	<b>26,443,269</b>
	=====	=====	=====	=====

The following table presents information regarding the Group's operating segments for the year ended 31 December 2016:

	COMMERCIAL BANKING AED'000	INVESTMENT BANKING AED'000	UNALLOCATED AED'000	TOTAL AED'000
<b>OPERATING INCOME</b>				
Net interest income	487,948	34,034	-	521,982
Net fee and commission income	173,979	-	-	173,979
Exchange profit	21,046	-	-	21,046
Investment income	-	9,545	-	9,545
Revaluation (loss) on investment properties	-	(66)	-	(66)
Other income	-	-	31,199	31,199
<b>TOTAL OPERATING INCOME</b>	<b>682,973</b>	<b>43,513</b>	<b>31,199</b>	<b>757,685</b>
<b>OTHER MATERIAL NON-CASH ITEMS</b>				
Net impairment charge on financial assets	(62,337)	-	-	(62,337)
Depreciation of property and equipment	-	-	(25,386)	(25,386)
General and administrative expenses	(213,227)	(37,629)	-	(250,856)
Amortization of intangible assets	(5,910)	-	-	(5,910)
Income tax expenses – overseas	-	-	(11,040)	(11,040)
<b>NET PROFIT FOR THE YEAR</b>	<b>401,499</b>	<b>5,884</b>	<b>(5,227)</b>	<b>402,156</b>
<b>SEGMENT ASSETS</b>	<b>22,592,369</b>	<b>3,237,684</b>	<b>1,266,916</b>	<b>27,096,969</b>
<b>SEGMENT LIABILITIES</b>	<b>20,391,994</b>	<b>1,826,638</b>	<b>278,609</b>	<b>22,497,241</b>

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2016: Nil). Transactions between segments, inter-segment cost of funds and allocation of expenses are not determined by management for resource allocation purpose. The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4.

For the purposes of monitoring segment performance and allocating resources between segments:

- > All assets are allocated to reportable segments except for property and equipment, goodwill and other intangibles and certain amounts included in other assets; and
- > All liabilities are allocated to reportable segments except for certain amounts included in other liabilities.



8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35.3 Geographical information

The Group operates in two principal geographical areas - United Arab Emirates (country of domicile) and Lebanon (referred to as 'foreign').

The Group's operating income and information about its non-current assets by geographical location are detailed below:

	COUNTRY OF DOMICILE AED'000	FOREIGN AED'000	TOTAL AED'000
2017			
Operating income	664,851	115,135	779,986
	=====	=====	=====
Non-current assets	2,408,465	332,922	2,741,387
	=====	=====	=====
2016			
Operating income	631,524	126,161	757,685
	=====	=====	=====
Non-current assets	1,609,434	291,018	1,900,452
	=====	=====	=====

35.4 Information about major customers

In 2017, two customers accounted for more than 10% of the Group's net operating income each (2016: one customer accounted for more than 10% of the Group's net operating income).

36. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

(a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2017:

	FVTPL AED'000	FVTOCI AED'000	AMORTISED COST AED'000	TOTAL AED'000
FINANCIAL ASSETS:				
Cash and balances with central banks	-	-	5,587,606	5,587,606
Deposits and balances due from banks	-	-	503,218	503,218
Reverse-repo placements	-	-	1,867,798	1,867,798
Loans and advances, net	-	-	17,476,329	17,476,329
Other financial assets measured at fair value	103,453	709,833	-	813,286
Other financial assets measured at amortised cost	-	-	794,585	794,585
Other assets	5,945	-	900,972	906,917
	=====	=====	=====	=====
TOTAL	109,398	709,833	27,130,508	27,949,739
	=====	=====	=====	=====
FINANCIAL LIABILITIES:				
Customers' deposits	-	-	21,630,471	21,630,471
Deposits and balances due to banks	-	-	87,122	87,122
Other liabilities	40,032	-	909,993	950,025
Issued Bonds	3,706,810	-	-	3,706,810
	=====	=====	=====	=====
TOTAL	3,746,842	-	22,627,586	26,374,428
	=====	=====	=====	=====

(b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2016:

	<b>FVTPL</b> <b>AED'000</b>	<b>FVTOCI</b> <b>AED'000</b>	<b>AMORTISED COST</b> <b>AED'000</b>	<b>TOTAL</b> <b>AED'000</b>
<b>FINANCIAL ASSETS:</b>				
Cash and balances with central banks	-	-	4,308,887	4,308,887
Deposits and balances due from banks	-	-	691,673	691,673
Reverse-repo placements	-	-	639,476	639,476
Loans and advances, net	-	-	17,074,997	17,074,997
Other financial assets measured at fair value	77,510	1,023,324	-	1,100,834
Other financial assets measured at amortised cost	-	-	747,237	747,237
Other assets	1,682	-	900,877	902,559
<b>TOTAL</b>	<b>79,192</b>	<b>1,023,324</b>	<b>24,363,147</b>	<b>25,465,663</b>
	=====	=====	=====	=====
<b>FINANCIAL LIABILITIES:</b>				
Customers' deposits	-	-	19,736,917	19,736,917
Deposits and balances due to banks	-	-	97,789	97,789
Other liabilities	6,453	-	750,525	756,978
Issued Bonds	1,826,638	-	-	1,826,638
<b>TOTAL</b>	<b>1,833,091</b>	<b>-</b>	<b>20,585,231</b>	<b>22,418,322</b>
	=====	=====	=====	=====

### 37. RISK MANAGEMENT

The Group has Senior Management committees to oversee the risk management. The Executive Committee and the Board Risk Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit risk. It also sets policies, system and limits for interest rate risk, foreign exchange risk, and liquidity risk. The Group also has a Credit Risk function which independently reviews adherence to all risk management policies and processes. The Group's internal audit function, which is part of risk review, primarily evaluates the effectiveness of the controls addressing operational risk.

#### CREDIT RISK MANAGEMENT

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and by limiting the

duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counter-parties to mitigate credit risk.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

Policies relating to credit are reviewed and approved by the Group's Executive Committee. All credit lines are approved in accordance with the Group's credit policy set out in the Credit Policy Manual. Credit and marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Group further limits risk through diversification of its assets by economic and industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic

reviews are conducted by Credit Risk and facilities are risk graded based on criterion established in the Credit Policy Manual.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Group's Executive Committee and are monitored by the Senior Management on a daily basis.

The Executive Committee is responsible for setting credit policy of the Group. It also establishes industry caps, approves policy exceptions, and conducts periodic portfolio reviews to ascertain portfolio quality.

**Commercial/Institutional lending underwriting**

All credit applications for Commercial and Institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group inherently risky and where industry knowledge specialisation is required. In addition, the Group sets credit limits for all customers based on their creditworthiness.

All credit facilities extended by the Group are made subject to prior approval pursuant to a delegated signature authority system under the

ultimate authority of the Executive Committee or the Group's Executive Director and General Manager under the supervision of the Board. At least two signatures are required to approve any commercial or institutional credit application.

**Credit review procedures and loan classification**

The Group's Credit Risk department subjects the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the U.A.E. and the Group's internal policies in order to assist in the early identification of accrual and potential performance problems. The Credit Risk department validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and industry and monitors observance of all approved credit policies, guidelines and operating procedures across the Group.

All commercial/institutional loan facilities of the Group are assigned one of nine risk ratings (A-I) where A is being excellent and I being loss with no reimbursement capacity and total provisioning.

If a Loan is impaired, interest will be suspended and not be credited to the consolidated statement of profit or loss. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.



**MAXIMUM EXPOSURE TO CREDIT RISK**

	<b>Loans and advances to customers</b>	
	<b>2017</b>	2016
	<b>AED'000</b>	AED'000
<b>CARRYING AMOUNT</b>		
<i>Individually impaired</i>		
Grade (G-I) - gross amount	<b>1,400,430</b>	1,062,529
<i>Neither past due nor impaired</i>		
Grade A	<b>487,173</b>	1,755,175
Grade B	<b>10,451,249</b>	10,502,173
Grade C	<b>3,760,937</b>	2,093,175
Grade D	<b>2,727,567</b>	1,509,602
Grade E	<b>121,190</b>	1,111,043
Grade F	<b>136,716</b>	333,260
	<b>19,085,262</b>	18,366,957
Past due but not impaired	<b>352,908</b>	613,195
<b>TOTAL CARRYING AMOUNT</b>	<b>19,438,170</b>	18,980,152
<b>ALLOWANCE FOR IMPAIRMENT (INCLUDING INTEREST IN SUSPENSE)</b>	<b>(1,961,841)</b>	(1,905,155)
<b>NET CARRYING AMOUNT</b>	<b>17,476,329</b>	17,074,997
	=====	=====

**CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS**

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of assets for certain key statement of financial position items, based on the Group rating system.

	<i>Neither past due nor impaired</i>				
	<b>HIGH GRADE</b>	<b>STANDARD GRADE</b>	<b>WATCH-LIST GRADE</b>	<b>PAST DUE OR INDIVIDUALLY IMPAIRED</b>	<b>TOTAL</b>
	<b>2017</b>	<b>2017</b>	<b>2017</b>	<b>2017</b>	<b>2017</b>
	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>
Balances with Central Banks	<b>5,529,203</b>	-	-	-	<b>5,529,203</b>
Deposits and balances due from banks	<b>500,316</b>	<b>2,902</b>	-	-	<b>503,218</b>
Reverse-repo placements	<b>1,867,798</b>	-	-	-	<b>1,867,798</b>
Investments in debt securities	<b>794,585</b>	-	-	-	<b>794,585</b>
Loans and advances, (gross)	<b>487,173</b>	<b>16,939,753</b>	<b>257,906</b>	<b>1,753,338</b>	<b>19,438,170</b>
Other assets	-	<b>767,934</b>	-	-	<b>767,934</b>

	<i>Neither past due nor impaired</i>				
	<b>HIGH GRADE</b>	<b>STANDARD GRADE</b>	<b>WATCH-LIST GRADE</b>	<b>PAST DUE OR INDIVIDUALLY IMPAIRED</b>	<b>TOTAL</b>
	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>
	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>
Balances with Central Banks	4,258,722	-	-	-	4,258,722
Deposits and balances due from banks	686,685	4,988	-	-	691,673
Reverse-repo placements	639,476	-	-	-	639,476
Investments in debt securities	747,237	-	-	-	747,237
Loans and advances, (gross)	1,755,175	14,104,950	1,444,303	1,675,724	18,980,152
Other assets	-	656,809	-	200,000	856,809

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

THE RISK CLASSIFICATION OF LOANS AND ADVANCES

	2017 AED'000	2016 AED'000
Performing loans	15,365,116	15,997,329
Other loans exceptionally monitored	2,672,624	1,920,294
Non-performing loans	1,400,430	1,062,529
	<b>19,438,170</b>	18,980,152
Less: Allowance for impairment	<b>(1,555,122)</b>	(1,583,551)
Less: Interest in suspense	<b>(406,719)</b>	(321,604)
	<b>17,476,329</b> =====	17,074,997 =====

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements, position items, based on the Group rating system.

	NOTES	2017 AED'000	2016 AED'000
Balances with Central Banks	6	5,529,203	4,258,722
Deposits and balances due from banks	7	503,218	691,673
Reverse-repo placements	8	1,867,798	639,476
Loans and advances , net	9	17,476,329	17,074,997
Investments in debt securities	10	794,585	747,237
Other assets (excluding prepayments & assets acquired in settlement of debts)		906,917	927,584
<b>TOTAL</b>		<b>27,078,050</b>	24,339,689
Letters of credit	24	1,372,439	1,223,786
Guarantees	24	2,366,318	2,458,652
Undrawn loan commitments	24	1,873,569	1,383,783
<b>Total</b>		<b>5,612,326</b>	5,066,221
<b>TOTAL CREDIT RISK EXPOSURE</b>		<b>32,690,376</b> =====	29,405,910 =====

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

AGING ANALYSIS OF PAST DUE BUT NOT IMPAIRED LOANS PER CLASS OF ON-BALANCE SHEET FINANCIAL ASSETS

	LESS THAN 30 DAYS 2017 AED'000	31 TO 89 DAYS 2017 AED'000	MORE THAN 90 DAYS 2017 AED'000	Total 2017 AED'000
Loans and advances	89,569	27,997	235,342	352,908

	LESS THAN 30 DAYS 2016 AED'000	31 TO 89 DAYS 2016 AED'000	MORE THAN 90 DAYS 2016 AED'000	Total 2016 AED'000
Loans and advances	232,034	151,259	229,902	613,195

COLLATERALS HELD AGAINST LOANS AND ADVANCES

The fair value of the collateral that the Group held as at 31 December 2017 for past due but not impaired loans and advances to customers covers 92% (2016: 112%) of the outstanding balance. For each loan, the value of the disclosed collateral is capped to the nominal amount of the loan that is held against.

CARRYING AMOUNT PER CLASS OF ON-BALANCE SHEET FINANCIAL ASSETS WHOSE TERMS HAVE BEEN RENEGOTIATED

	2017 AED'000	2016 AED'000
Loans and advances	1,178,359	1,519,626

IMPAIRED LOANS

Impaired loans are loans for which the Group determines that it is likely the collectability of all principal and interest due according to the contractual terms of the loan/securities agreement(s) would be doubtful. These loans are graded G to I in the Group's internal credit risk grading system.

ALLOWANCES FOR IMPAIRMENT

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for group of homogeneous assets with respect to losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

WRITE-OFF POLICY

The Group writes off a loan balance (and any related allowances for impairment losses) when the Group determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Group holds collateral against loans and advances in the form of mortgage interests over properties, vehicles and machineries, cash margins, fixed deposits, guarantees and others. The Group accepts guarantees mainly from well-reputed local or international banks, well-established local or multinational corporate and high net worth private individuals. Management has estimated the fair value of collateral to be AED 14.7 billion (2016: AED 13.4 billion). The fair

value of the collateral includes cash deposits which are not under lien and the Group has right to set-off against the outstanding facilities.

Concentration risk arises when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group measure its exposure to credit risk by reference to gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

Concentration of credit risk by industrial sector for loans and advances are presented in notes ge and gf. Concentration of credit risk by geographical distribution of loans and advances and financial investments is set out in note gb and 10b.

LIQUIDITY RISK MANAGEMENT

Executive Committee (EC) & Board Risk Committee (BRC)

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

In addition to its credit related activity, the Executive Committee along with the Board Risk Committee have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. The EC and BRC review liquidity ratios; asset and liability structure; interest rate and foreign exchange exposures; internal and statutory ratio requirements; funding gaps; and general domestic and international economic and financial market conditions. The EC & BRC formulate liquidity risk management guidelines for the Group's operation on the basis of such review.



The Group's Senior Management monitors the liquidity on a daily basis and uses an interest rate simulation model to measure and monitor interest rate sensitivity and varying interest rate scenarios.

The EC members comprise of the Chairman, three Board Members, in addition to the Executive Director and General Manager. The EC meets once or more every 45 days, as circumstances dictate. The quorum requires all members to be present at the meeting and decisions taken to be unanimous.

The Group manages its liquidity in accordance with U.A.E. Central Bank requirements and the Group's internal guidelines. The U.A.E. Central Bank sets cash ratio requirements on overall deposits ranging between 1.0 percent for time deposits and 14.0 percent for demand deposits, according to the tenor of the deposits. The U.A.E. Central Bank also imposes a mandatory 1:1 utilisation ratio, whereby; loans and advances (combined with inter-bank placements having a remaining term of 'greater than three months') should not exceed stable funds as defined by the U.A.E. Central Bank. Stable funds are defined by the U.A.E. Central Bank to mean free-own funds, inter-bank deposits with a remaining term of more than six months, and stable customer deposits. To guard against liquidity risk, the Group diversifies its funding sources and manages its assets with liquidity in mind, seeking to maintain a preferable proportion between cash, cash equivalent, and readily marketable securities. The Board Risk Committee sets and monitors liquidity ratios and regularly revises and updates the

Group's liquidity management policies to ensure that the Group would be in a position to meet its obligations as they fall due. Management of liquidity risk within the parameters prescribed by the Board Risk Committee has been delegated to an Asset and Liability Committee (ALCO) comprising the Deputy General Manager and senior executives from treasury, finance, corporate credit, and investment departments.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or potential damage to the Group's reputation.

The Treasury department communicates with other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury maintains a portfolio of short-term liquid assets to ensure liquidity is maintained within the Group's operations as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is performed under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board Risk Committee. The Daily Position sheet, which reports the liquidity and exchange positions of the Group is reviewed by Senior Management. A summary report, including any exceptions and remedial action taken, is submitted to the Board Risk Committee.

The maturity profile of the assets and liabilities at 31 December 2017 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	WITHIN 3 MONTHS	OVER 3 MONTHS TO 1 YEAR	OVER 1 YEAR	UNDATED	TOTAL
	AED'000	AED'000	AED'000	AED'000	AED'000
<b>ASSETS</b>					
Cash and balances with central banks	4,136,514	-	1,433,888	17,204	5,587,606
Deposits and balances due from banks	483,749	19,469	-	-	503,218
Reverse-repo placements	1,867,798	-	-	-	1,867,798
Loans and advances, net	6,925,836	1,076,659	9,470,963	2,871	17,476,329
Other financial assets measured at fair value	103,453	-	7,328	702,505	813,286
Other financial assets measured at amortised cost	25,634	86,606	672,020	10,325	794,585
Investment properties	-	-	-	584,858	584,858
Goodwill and other intangibles	-	-	-	421,966	421,966
Other assets	876,941	44,609	1,265,222	5,960	2,192,732
Property and equipment	-	-	-	268,822	268,822
<b>TOTAL ASSETS</b>	<b>14,419,925</b>	<b>1,227,343</b>	<b>12,849,421</b>	<b>2,014,511</b>	<b>30,511,200</b>
	=====	=====	=====	=====	=====
<b>LIABILITIES AND EQUITY</b>					
Customers' deposits	14,866,344	6,511,647	252,480	-	21,630,471
Deposits and balances due to banks	41,169	-	45,953	-	87,122
Other liabilities	971,736	34,133	12,997	-	1,018,866
Issued Bonds	-	-	3,706,810	-	3,706,810
Equity	-	-	-	4,067,931	4,067,931
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>15,879,249</b>	<b>6,545,780</b>	<b>4,018,240</b>	<b>4,067,931</b>	<b>30,511,200</b>
	=====	=====	=====	=====	=====
<b>NET LIQUIDITY GAP</b>	<b>(1,459,324)</b>	<b>(5,318,437)</b>	<b>8,831,181</b>	<b>(2,053,420)</b>	<b>-</b>
	=====	=====	=====	=====	=====

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The maturity profile of the assets and liabilities at 31 December 2016 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	WITHIN 3 MONTHS	OVER 3 MONTHS TO 1 YEAR	OVER 1 YEAR	UNDATED	TOTAL
	AED'000	AED'000	AED'000	AED'000	AED'000
<b>ASSETS</b>					
Cash and balances with central banks	2,911,388	342,643	1,040,326	14,530	4,308,887
Deposits and balances due from banks	691,673	-	-	-	691,673
Reverse-repo placements	639,476	-	-	-	639,476
Loans and advances, net	7,789,131	2,353,076	6,927,295	5,495	17,074,997
Other financial assets measured at fair value	77,510	-	-	1,023,324	1,100,834
Other financial assets measured at amortised cost	48,662	116,276	575,094	7,205	747,237
Investment properties	-	-	-	281,337	281,337
Goodwill and other intangibles	-	-	-	228,324	228,324
Other assets	532,306	5,480	1,206,852	5,370	1,750,008
Property and equipment	-	-	-	274,196	274,196
<b>TOTAL ASSETS</b>	12,690,146	2,817,475	9,749,567	1,839,781	27,096,969
	=====	=====	=====	=====	=====
<b>LIABILITIES AND EQUITY</b>					
Customers' deposits	15,283,556	4,182,282	271,079	-	19,736,917
Deposits and balances due to banks	97,789	-	-	-	97,789
Other liabilities	790,204	45,693	-	-	835,897
Issued Bonds	-	-	1,826,638	-	1,826,638
Equity	-	-	-	4,599,728	4,599,728
<b>TOTAL LIABILITIES AND EQUITY</b>	16,171,549	4,227,975	2,097,717	4,599,728	27,096,969
<b>NET LIQUIDITY GAP</b>	(3,481,403)	(1,410,500)	7,651,850	(2,759,947)	-
	=====	=====	=====	=====	=====



LIQUIDITY RISK MANAGEMENT

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into trading, or non-trading /banking book.

a) Market risk - trading book

The Executive Committee has set limits for acceptable level of risks in managing the trading book. The Group maintains a well-diversified portfolio. In order to manage the market risk in the trading book, the Group carries a limited amount of market risk based on the policy preference and this is continuously monitored by Senior Management. Proprietary trading for the account of the Group is managed by a proprietary trading limit with a stop-loss limit.

The Group's trading book mainly comprises of equity instruments in companies listed on the U.A.E. exchanges. As such, the market risk in the trading book is limited to equity price risk.

Equity price risk refers to the risk of a decrease in the fair values of equities in the Group's trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's equity investments held in the trading book due to a reasonable possible change in U.A.E. equity indices, with all other variables held constant is as follows:

	31 DECEMBER 2017		31 DECEMBER 2016	
	CHANGE IN EQUITY PRICE	EFFECT ON INCOME	CHANGE IN EQUITY PRICE	EFFECT ON INCOME
	%	AED'000	%	AED'000
GLOBAL STOCK MARKETS	+1%	1,035	+1%	775
GLOBAL STOCK MARKETS	-1%	(1,035)	-1%	(775)

b) Market risk - non-trading or banking book

Market risk on non-trading or banking positions mainly arises from the interest rate, foreign currency exposures and equity price changes.

i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Group uses simulation-modelling tools to periodically measure and monitor interest rate sensitivity. The results are monitored and analysed by the Senior Management. Since most of the Group's financial assets and liabilities are floating rate, deposits and loans generally re-price simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Group's assets and liabilities will be re-priced within one year or less, thereby further limiting interest rate risk.

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2017 was as follows:

	WEIGHT AVERAGE EFFECTIVE RATE	WITHIN 3 MONTHS AED'000	OVER 3 MONTHS TO 1 YEAR AED'000	OVER 1 YEAR AED'000	NON- INTEREST SENSITIVE AED'000	TOTAL AED'000
<b>ASSETS</b>						
Cash and balances with central banks	1.17%	3,398,739	-	969,250	1,219,617	5,587,606
Deposits and balances due from banks	0.93%	253,888	-	-	249,330	503,218
Reverse-repo placements	1.54%	1,867,798	-	-	-	1,867,798
Loans and advances, net	5.87%	16,553,849	246,013	61,475	614,992	17,476,329
Other financial assets						
- Equity instruments		-	-	-	813,286	813,286
Other financial assets						
- Debt securities	4.81%	220,355	86,598	484,597	3,035	794,585
Investment properties		-	-	-	584,858	584,858
Goodwill and other intangibles		-	-	-	421,966	421,966
Other assets		-	-	-	2,192,732	2,192,732
Property and equipment, net		-	-	-	268,822	268,822
<b>TOTAL ASSETS</b>		<b>22,294,629</b>	<b>332,611</b>	<b>1,515,322</b>	<b>6,368,638</b>	<b>30,511,200</b>
<b>LIABILITIES AND EQUITY</b>						
Customers' deposits	2.67%	10,872,799	6,211,144	250,223	4,296,305	21,630,471
Deposits and balances due to banks	1.62%	83,069	-	-	4,053	87,122
Other liabilities		2,334	-	-	1,016,532	1,018,866
Issued Bonds	3.80%	-	-	3,706,810	-	3,706,810
Equity		-	-	-	4,067,931	4,067,931
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>10,958,202</b>	<b>6,211,144</b>	<b>3,957,033</b>	<b>9,384,821</b>	<b>30,511,200</b>
On statement of financial position gap		<b>11,336,427</b>	<b>(5,878,533)</b>	<b>(2,441,711)</b>	<b>(3,016,183)</b>	<b>-</b>
<b>CUMULATIVE INTEREST RATE SENSITIVITY GAP</b>		<b>11,336,427</b>	<b>5,457,894</b>	<b>3,016,183</b>	<b>-</b>	<b>-</b>

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The Group's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2016 was as follows:

	WEIGHT AVERAGE EFFECTIVE RATE	WITHIN 3 MONTHS AED'000	OVER 3 MONTHS TO 1 YEAR AED'000	OVER 1 YEAR AED'000	NON- INTEREST SENSITIVE AED'000	TOTAL AED'000
<b>ASSETS</b>						
Cash and balances						
with central banks	0.77%	1,826,953	34,111	832,801	1,615,022	4,308,887
Deposits and balances						
due from banks	0.80%	363,873	-	-	327,800	691,673
Reverse-repo placements	0.73%	639,476	-	-	-	639,476
Loans and advances, net	5.90%	16,802,237	89,437	10,822	172,501	17,074,997
Other financial assets						
-Equity instruments		-	-	-	1,100,834	1,100,834
Other financial assets						
-Debt securities	4.64%	55,973	289,633	396,074	5,557	747,237
Investment properties		-	-	-	281,337	281,337
Goodwill and other intangibles		-	-	-	228,324	228,324
Other assets		-	-	-	1,750,008	1,750,008
Property and equipment, net		-	-	-	274,196	274,196
<b>TOTAL ASSETS</b>		19,688,512	413,181	1,239,697	5,755,579	27,096,969
		=====	=====	=====	=====	=====
<b>LIABILITIES AND EQUITY</b>						
Customers' deposits	2.40%	10,925,840	4,218,807	98,033	4,494,237	19,736,917
Deposits and balances						
due to banks	1.96%	92,220	-	-	5,569	97,789
Other liabilities		-	-	-	835,897	835,897
Issued Bonds	3.73%	-	-	1,826,638	-	1,826,638
Equity		-	-	-	4,599,728	4,599,728
<b>TOTAL LIABILITIES AND EQUITY</b>		11,018,060	4,218,807	1,924,671	9,935,431	27,096,969
		=====	=====	=====	=====	=====
On statement of financial position gap		8,670,452	(3,805,626)	(684,974)	(4,179,852)	-
<b>CUMULATIVE INTEREST RATE SENSITIVITY GAP</b>		8,670,452	4,864,826	4,179,852	-	-
		=====	=====	=====	=====	=====

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument, excluding non-interest bearing items. The rate is a historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or for an instrument carried at fair value. The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Group's consolidated statement of profit or loss or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2017, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at 31 December 2017 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in AED thousands.



8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2017 CURRENCY	INCREASE IN BASIS	SENSITIVITY OF INTEREST INCOME	SENSITIVITY OF EQUITY
AED	+200	114,597	114,597
USD	+200	(27,647)	(27,647)
Others	+200	(1,158)	(1,158)
AED	-200	(114,597)	(114,597)
USD	-200	27,647	27,647
Others	-200	1,158	1,158
2016 CURRENCY	INCREASE IN BASIS	SENSITIVITY OF INTEREST INCOME	SENSITIVITY OF EQUITY
AED	+200	97,772	97,772
USD	+200	(6,607)	(6,607)
Others	+200	(3,366)	(3,366)
AED	-200	(97,772)	(97,772)
USD	-200	6,607	6,607
Others	-200	3,366	3,366

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging instruments are also used to ensure that positions are maintained within the limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, in the normal course of business the Group provides foreign currency exposures to finance its client's activities. The Executive Committee sets the limits on the level of exposure by currency for both overnight and intra-day positions, which are closely monitored by Senior Management. As at 31 December 2017, the Group's net currency position was not material, and all the positions were within limits approved by the Executive Committee.

As the UAE Dirham and other GCC currencies are currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The table below shows the foreign currencies to which the Group has a significant exposure to:

	2017 AED'000 equivalent LONG (SHORT)	2016 AED'000 EQUIVALENT LONG (SHORT)
Euro	1,131	119

The analysis below calculates the effect of a possible movement of the currency rate against AED, with all other variables held constant, on the consolidated statement of profit or loss (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated statement of profit or loss or equity; whereas a negative effect shows a potential net reduction in consolidated statement of profit or loss or equity.

(AED'000)			
CURRENCY EXPOSURE AS AT 31 DECEMBER 2017	CHANGE IN CURRENCY RATE IN %	CHANGE ON NET PROFIT	CHANGE ON EQUITY
EUR	+5%	57	57
EUR	-5%	(57)	(57)

(AED'000)			
CURRENCY EXPOSURE AS AT 31 DECEMBER 2016	CHANGE IN CURRENCY RATE IN %	CHANGE ON NET PROFIT	CHANGE ON EQUITY
EUR	+5%	6	6
EUR	-5%	(6)	(6)

### iii) Equity price risk

Equity price risk refers to the risk of a decrease in the fair value of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's quoted equity investments held as financial assets at FVTOCI due to reasonable possible change in equity prices, with all other variables held constant is as follows:

	31 DECEMBER 2017		31 DECEMBER 2016	
	CHANGE IN EQUITY PRICE	EFFECT ON EQUITY	CHANGE IN EQUITY PRICE	EFFECT ON EQUITY
<b>MARKET INDICES</b>	%	AED'000	%	AED'000
<b>Global stock markets</b>	+1%	1,454	+1%	1,103
<b>Global stock markets</b>	-1%	(1,454)	-1%	(1,103)

### OPERATIONAL RISK

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

38. CAPITAL ADEQUACY AND CAPITAL MANAGEMENT

Capital management process

The Group's objectives when managing capital, which is a broader concept than the 'equity' in the consolidated statement of financial positions, are:

- > To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- > To safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- > To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The

required information is filed with the authority on a monthly or/and quarterly basis.

The Group assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, and commodity risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

I) BASEL II

The Group follows the standardised approach for credit, market and operational risk, as permitted by the U.A.E. Central Bank and as per Pillar 1 of Basel II.

The ratios calculated in accordance with Basel II are as follows:

	BASEL II	
	2017	2016
	AED'000	AED'000
<strong>TIER 1 CAPITAL</strong>		
Share capital	2,100,000	2,100,000
Statutory reserve	1,050,000	1,050,000
Contingency and general reserves	660,000	610,000
Retained earnings	647,251	606,035
Non-controlling interest in equity of subsidiaries	11,462	210,857
Goodwill and other intangibles	(421,966)	(228,324)
	<strong>4,046,747</strong>	4,348,568
<strong>TIER 2 CAPITAL</strong>		
Collective impairment allowance on loans and advances	257,180	235,383
Cumulative change in fair value	-	10,276
	<strong>257,180</strong>	245,659
<strong>TOTAL REGULATORY CAPITAL</strong>	<strong>4,303,927</strong>	4,594,227
<strong>RISK-WEIGHTED ASSETS:</strong>		
Credit risk	20,574,385	18,830,611
Market risk	208,783	171,177
Operational risk	1,481,723	1,484,159
<strong>TOTAL RISK-WEIGHTED ASSETS</strong>	<strong>22,264,891</strong>	20,485,947
	=====	=====
<strong>CAPITAL ADEQUACY RATIO</strong>	<strong>19.33%</strong>	22.43%
	=====	=====



II) BASEL III

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 three levels, namely common Equity Tier1 capital ratio (CET1), Tier1 capital ratio (T1) and Total capital ratio.

The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer

(CCyB) - maximum up to 2.5% of each buffer) introduced are over and above the minimum CET1 requirement of 7%.

For 2017, CCB is effective in transition arrangement and is required to be maintained at 1.25% of the Capital base. For 2018, CCB will be required at 1.88% and from 2019; it will be required to be maintained at 2.5% of the Capital base. CCyB is not yet in effect and is not required to be maintained for 2017.

The capital adequacy ratio as per Basel III capital regulation is given below:

CAPITAL RATIO	2017	MINIMUM CAPITAL REQUIREMENT 2017
Total capital ratio	17.93%	10.50%
Tier 1 capital ratio	16.87%	8.50%
CET1 capital ratio	16.87%	7.00%

39. FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments held at fair value through profit and loss

Investments held for trading or designated at fair value through profit and loss represent investment securities that present the Group with opportunity for returns through dividend income, trading gains and capital appreciation. Including in these investment listed equity securities for which the fair values are based on quoted prices at close of business as of 31 December 2017, and unlisted bonds for which the fair values are derived from internal valuation performed based on generally accepted pricing models, all inputs used for the valuation are supposed by observable market prices or rates.

Unquoted investments held at fair value through other comprehensive income

The consolidated financial statements include holdings in unquoted securities amounting to AED 534 million (2016: AED 913 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on comparable ratios backed by discounted cash flow analysis depending

on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

For investments valued using comparable ratios, share prices of comparable companies represent significant inputs to the valuation model. If the share prices of the comparable companies were 5% higher/ lower while all other variables were held constant, then the fair value of the securities would increase/ decrease by AED 27 million (2016: AED 46 million).

The impact of the change in fair valuation from previously existing carrying amounts have been recognised as a part of cumulative changes in fair value in equity.

Fair value of financial assets carried at amortised cost

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

	2017		2016	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	AED'000	AED'000	AED'000	AED'000
FINANCIAL ASSETS				
- Other financial assets				
measured at amortised cost	794,585	790,552	747,237	749,067
	=====	=====	=====	=====

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The fair value for other financial assets measured at amortised cost is based on market prices.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value. They are banked into levels 1 to 3 based on the degree to which the fair value is observable.

> 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, including over-the-counter quoted 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).

	LEVEL 1 AED'000	LEVEL 2 AED'000	LEVEL 3 AED'000	TOTAL AED'000
<b>AT 31 DECEMBER 2017</b>				
<b>Other financial assets measured at fair value</b>				
Investment measured at FVTPL Quoted equity	103,453	-	-	103,453
<b>Investments measured at FVTOCI</b>				
Quoted equity	145,416	-	-	145,416
Unquoted equity	-	-	564,417	564,417
<b>TOTAL</b>	<b>248,869</b>	<b>-</b>	<b>564,417</b>	<b>813,286</b>
<b>Other financial liabilities measured at fair value</b>				
Issued bonds measured at FVTPL Quoted debt securities	3,706,810	-	-	3,706,810
<b>Other assets /liabilities</b>				
Positive fair value of derivatives	-	5,945	-	5,945
Negative fair value of derivatives	-	(40,032)	-	(40,032)
<b>AT 31 DECEMBER 2016</b>				
<b>Other financial assets measured at fair value</b>				
Investment measured at FVTPL Quoted equity	77,510	-	-	77,510
<b>Investments measured at FVTOCI</b>				
Quoted equity	110,314	-	-	110,314
Unquoted equity	-	-	913,010	913,010
<b>TOTAL</b>	<b>187,824</b>	<b>-</b>	<b>913,010</b>	<b>1,100,834</b>
<b>Other financial liabilities measured at fair value</b>				
Issued bonds measured at FVTPL Quoted debt securities	1,826,638	-	-	1,826,638
<b>Other assets /liabilities</b>				
Positive fair value of derivatives	-	1,672	-	1,672
Negative fair value of derivatives	-	(6,679)	-	(6,679)

There were no transfers between Level 1 and Level 2 during the current year.

Reconciliation of Level 3 fair value measurements of other financial assets measured at FVTOCI:

	2017 AED'000	2016 AED'000
Opening balance	913,010	1,022,974
Additions	37,309	-
Disposals	(8,499)	-
Losses recognised in other comprehensive income	(377,403)	(109,964)
<b>CLOSING BALANCE</b>	<b>564,417</b> =====	<b>913,010</b> =====

UNOBSERVABLE INPUTS USED IN MEASURING FAIR VALUE

The effect of unobservable input on fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, 10% change in the underlying value of these investments would have the following effects.

31 December 2017	EFFECT ON OCI	
	Favorable	Unfavorable
	+564	-564

31 December 2016	EFFECT ON OCI	
	Favorable	Unfavorable
	+913	-913

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument is negligible.

Financial Instruments not recorded at fair value

The fair values of financial instruments not recorded at fair value includes cash and balances with Central Banks, due from banks and financial institutions, loans and advances, net, other assets (excluding prepayments), due to banks, customers' deposits and other liabilities that are categorised as level two based on market observable inputs. The fair values of financial

instruments not recorded at fair value are not materially different to their carrying values.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fairvalue. This assumption is also applied to demand deposits and savings accounts without specific maturity.

Fixed rate financial instruments

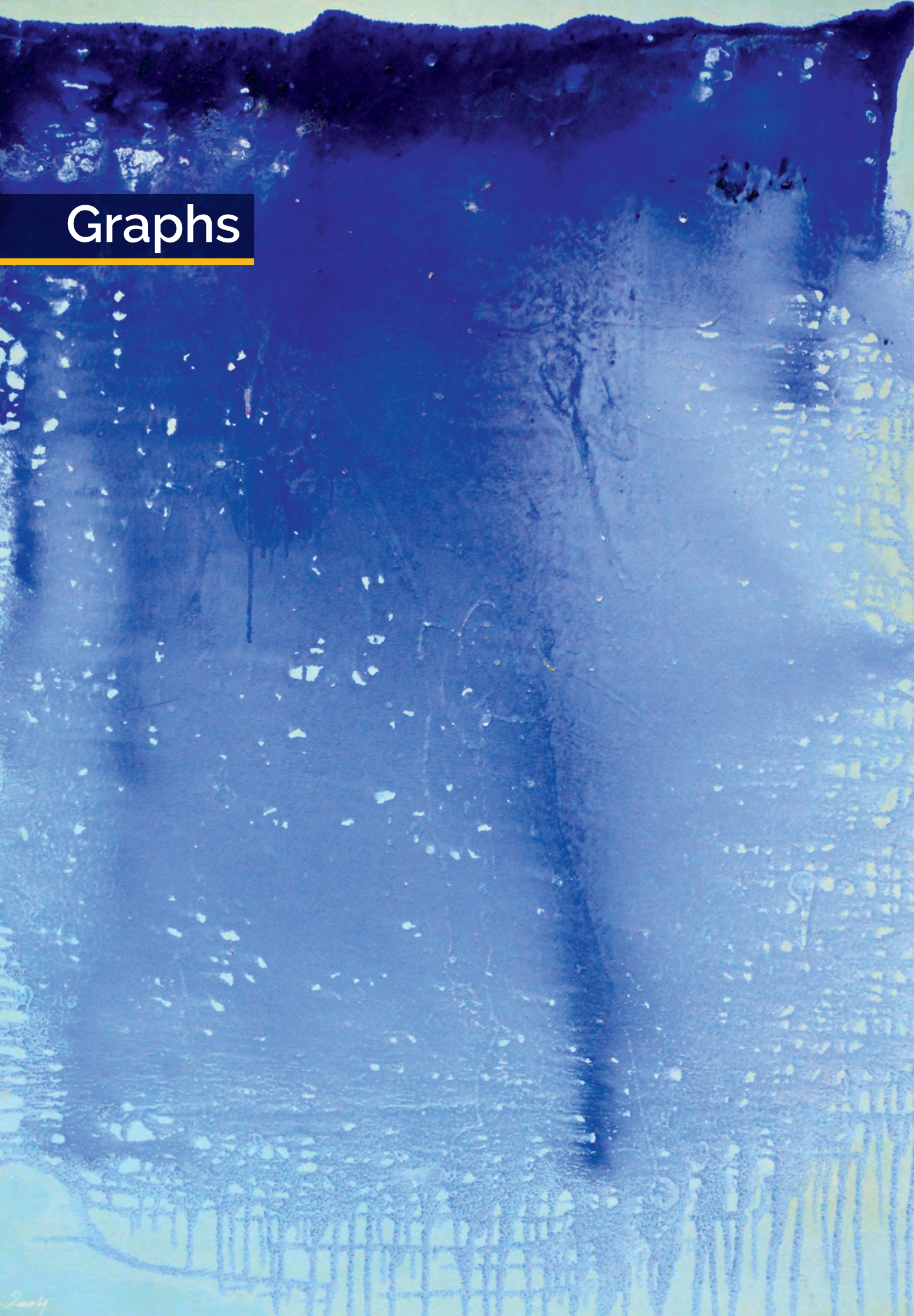
The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit and maturity. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

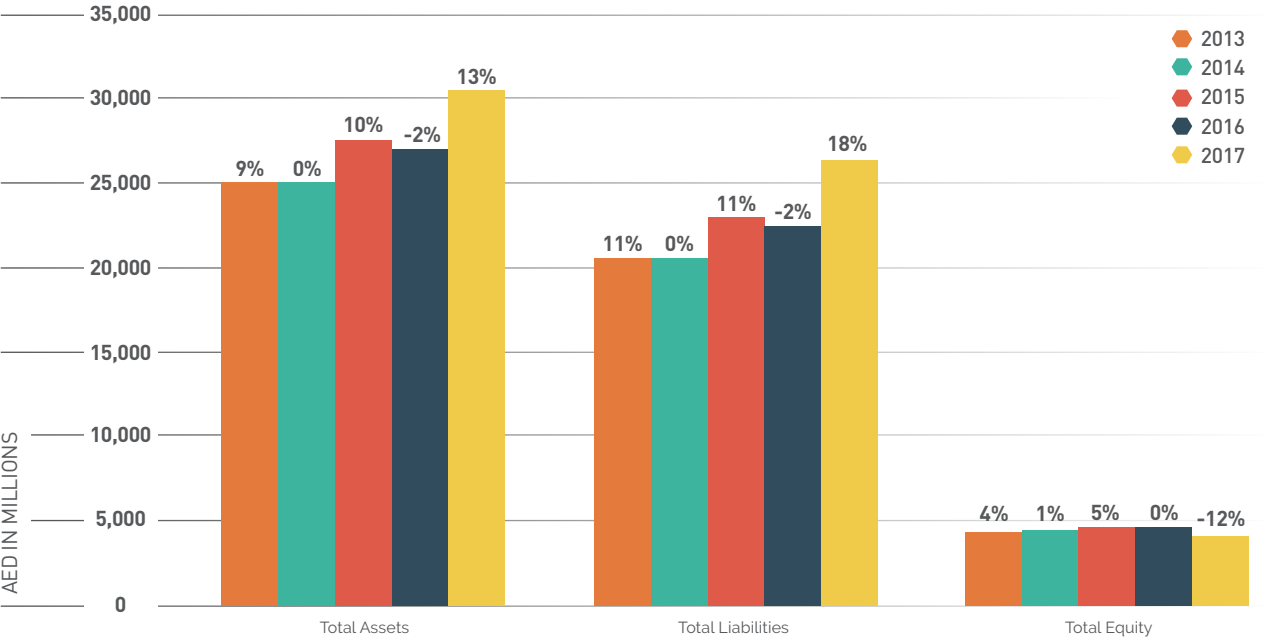
The consolidated financial statements were approved by the Board of Directors and authorised for issue on 18 February 2018.



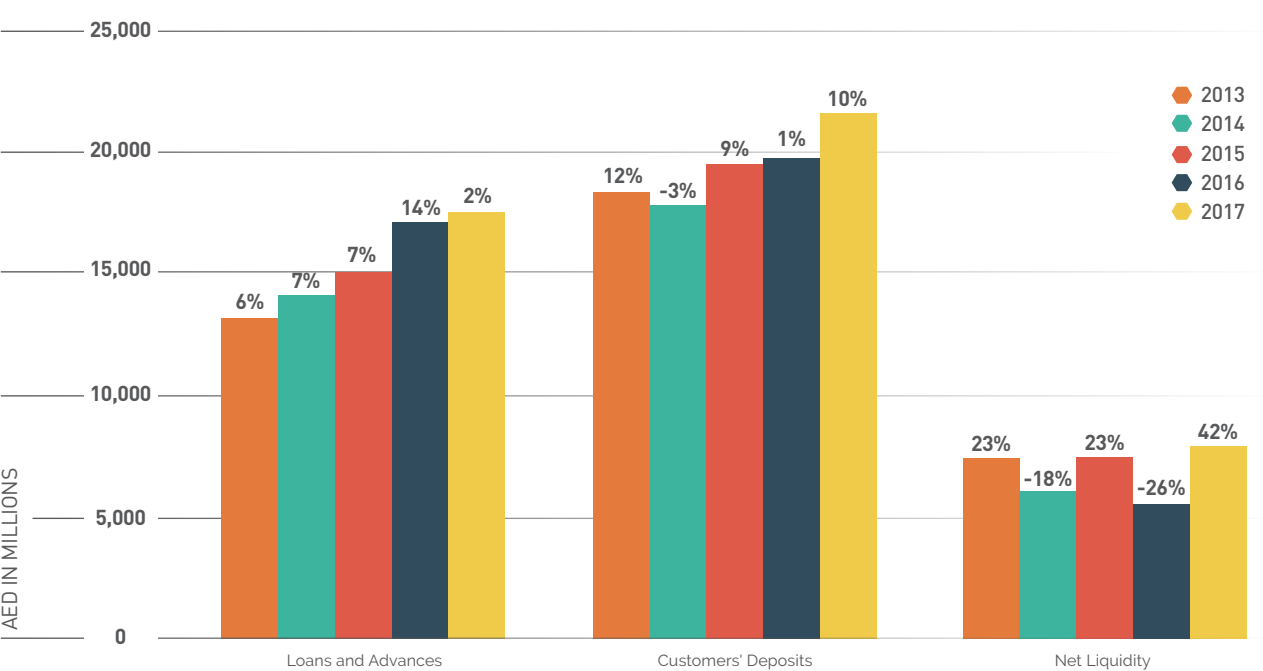
# Graphs



EVOLUTION OF TOTAL ASSETS, LIABILITIES AND EQUITY

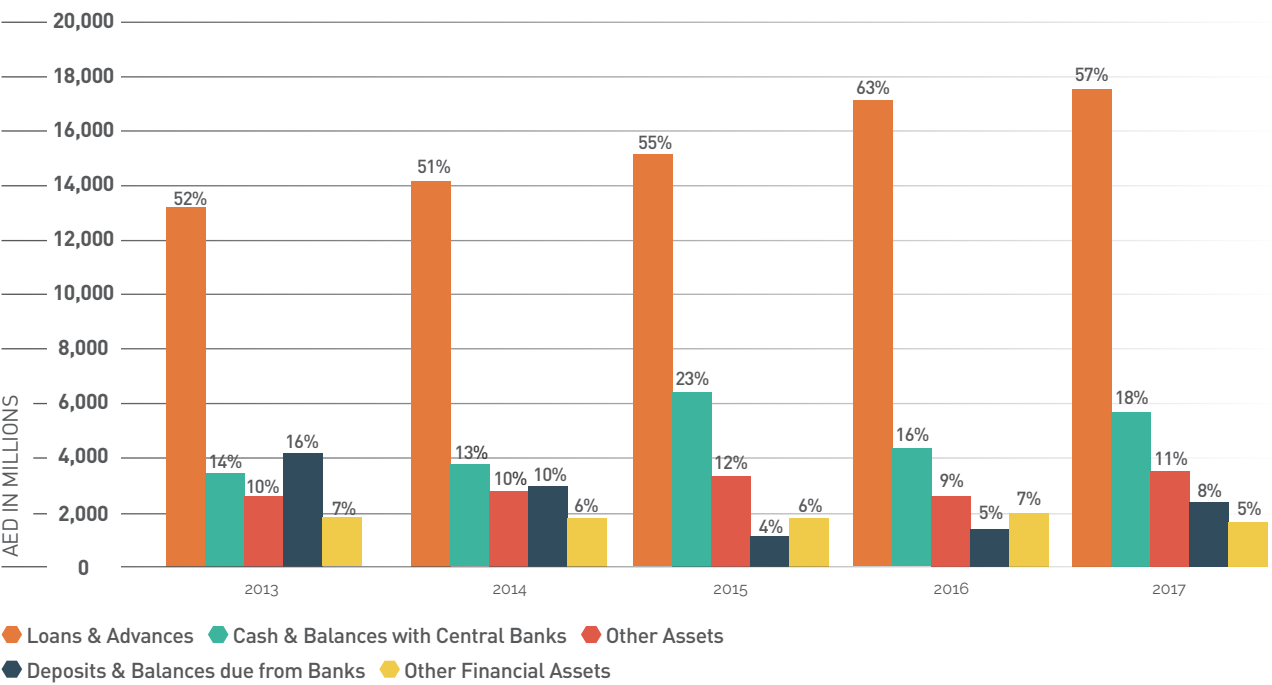


EVOLUTION OF LOANS & ADVANCES, CUSTOMERS' DEPOSITS AND NET LIQUIDITY

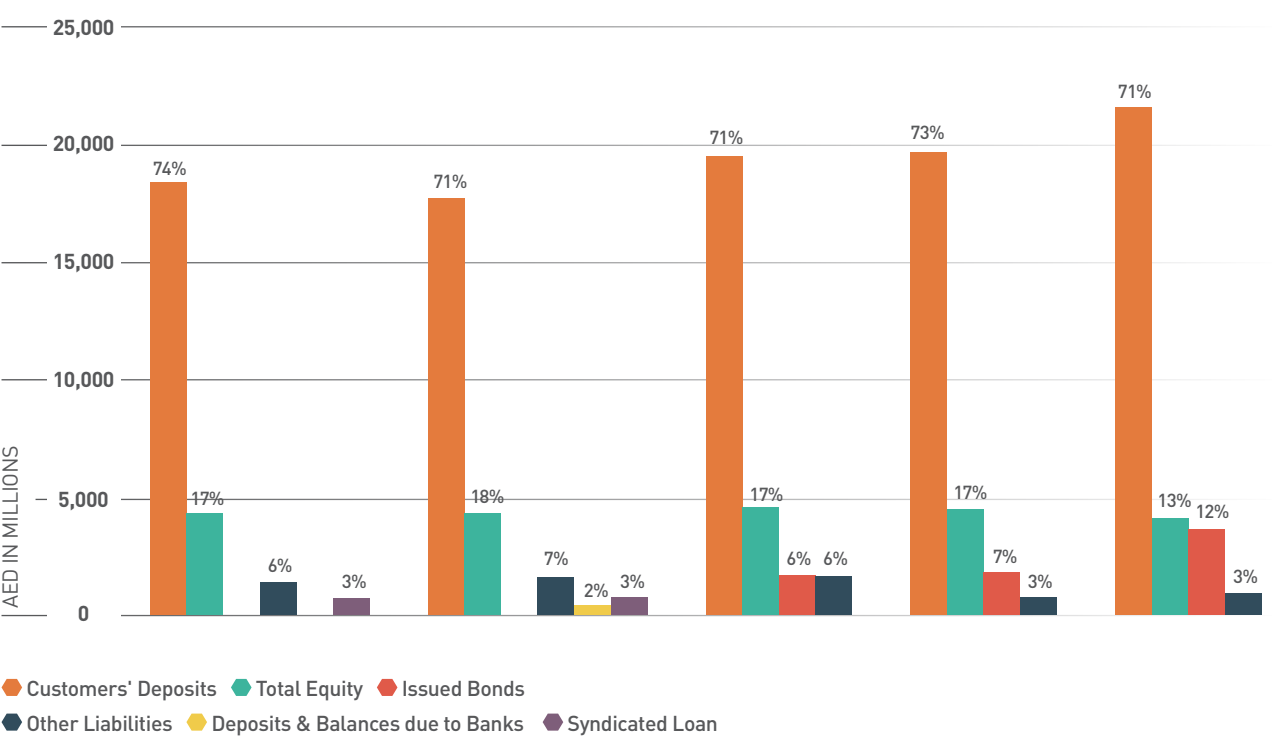




CONSOLIDATED STATEMENT OF FINANCIAL POSITION STRUCTURE - ASSETS

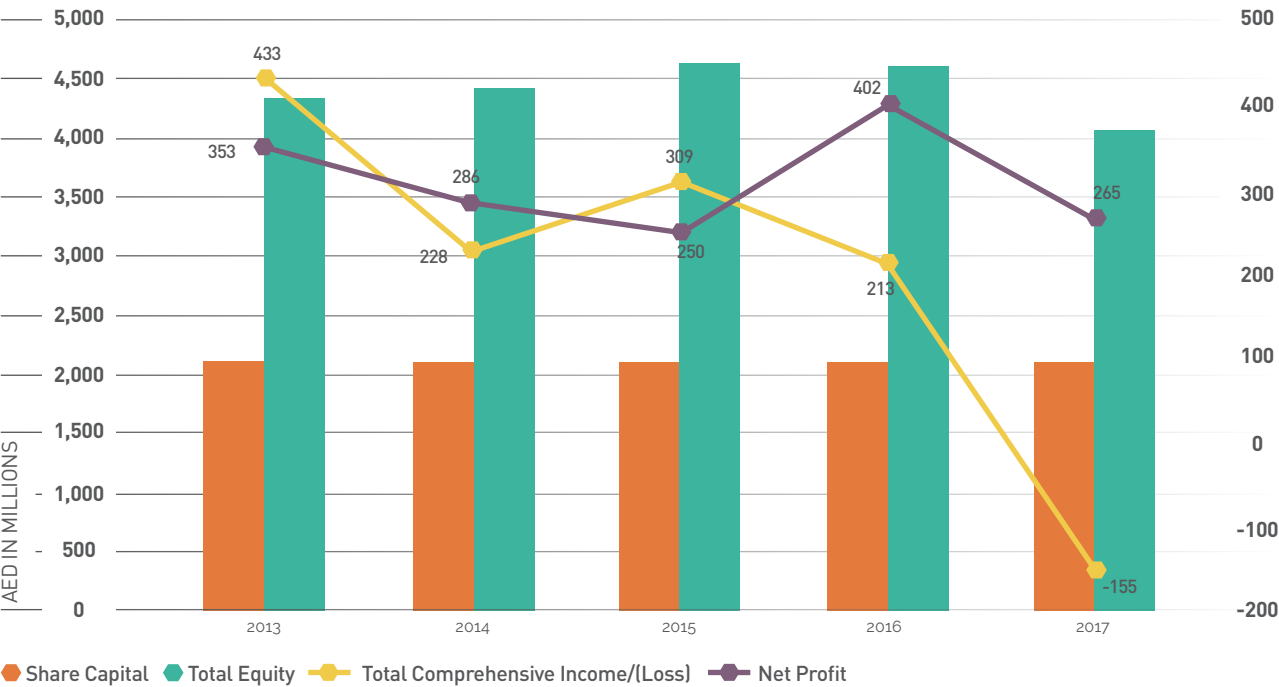


CONSOLIDATED STATEMENT OF FINANCIAL POSITION STRUCTURE LIABILITIES AND EQUITY

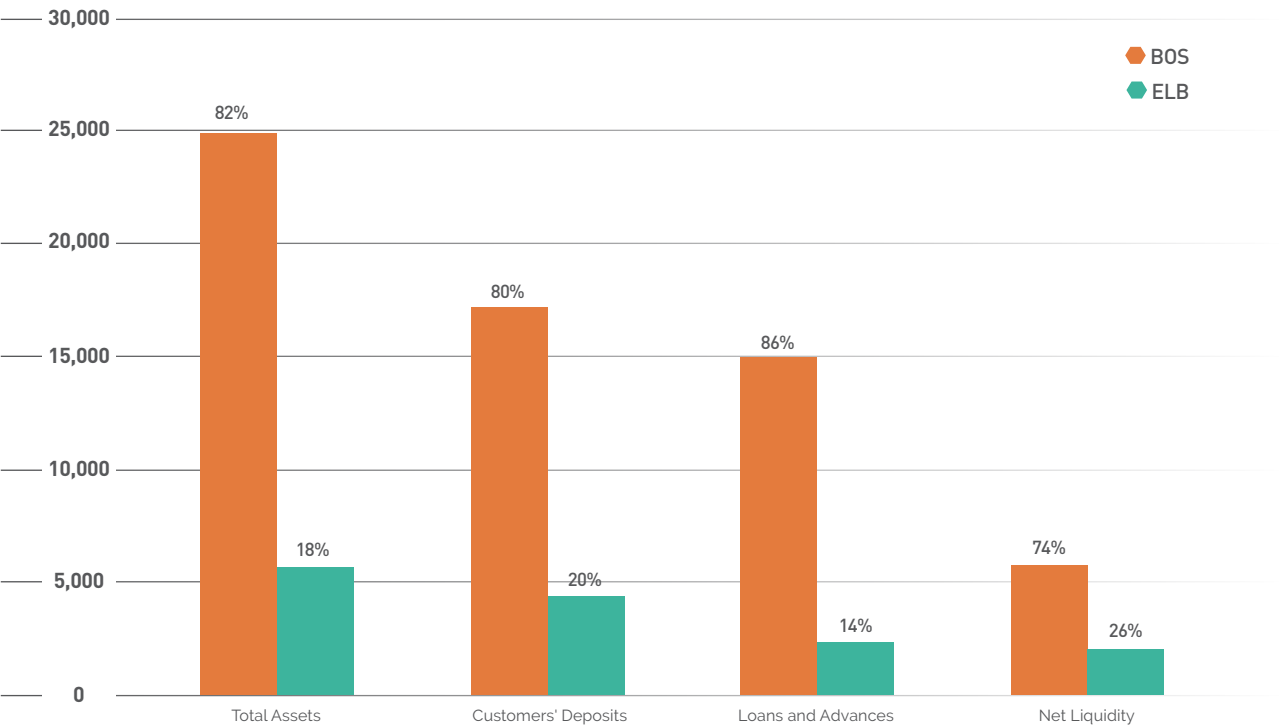




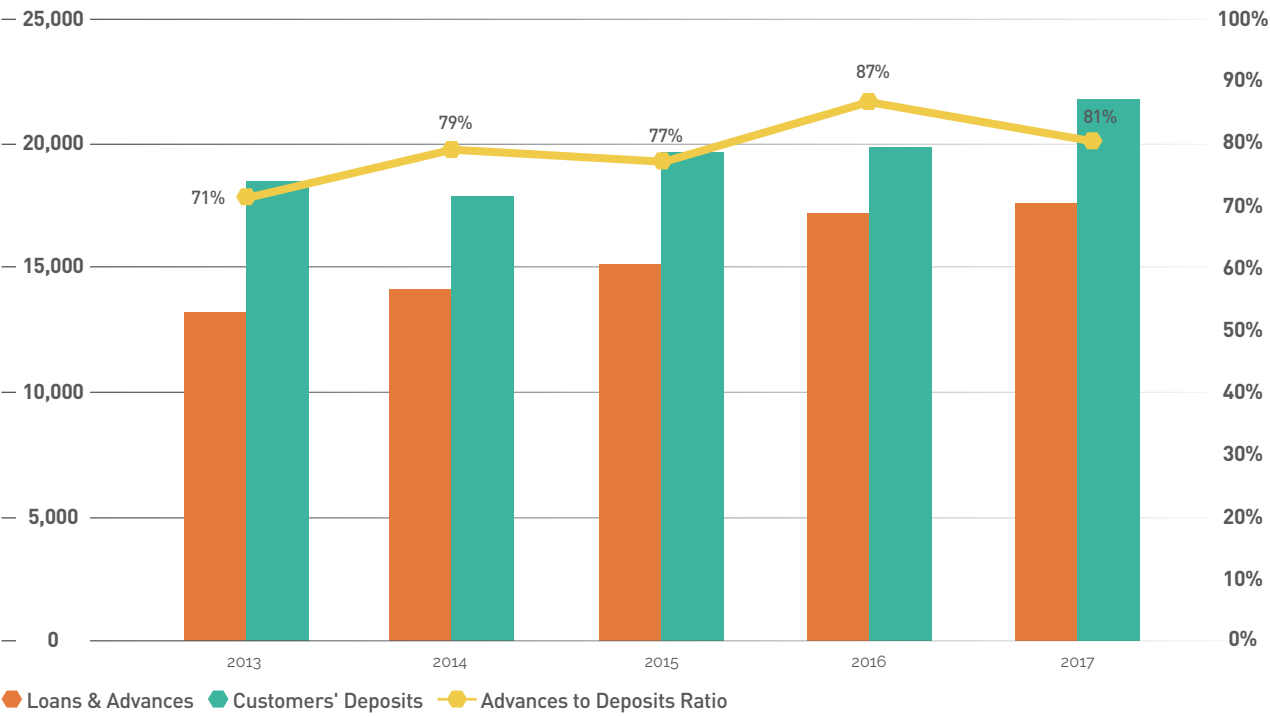
EVOLUTION OF SHARE CAPITAL, TOTAL EQUITY & NET PROFIT



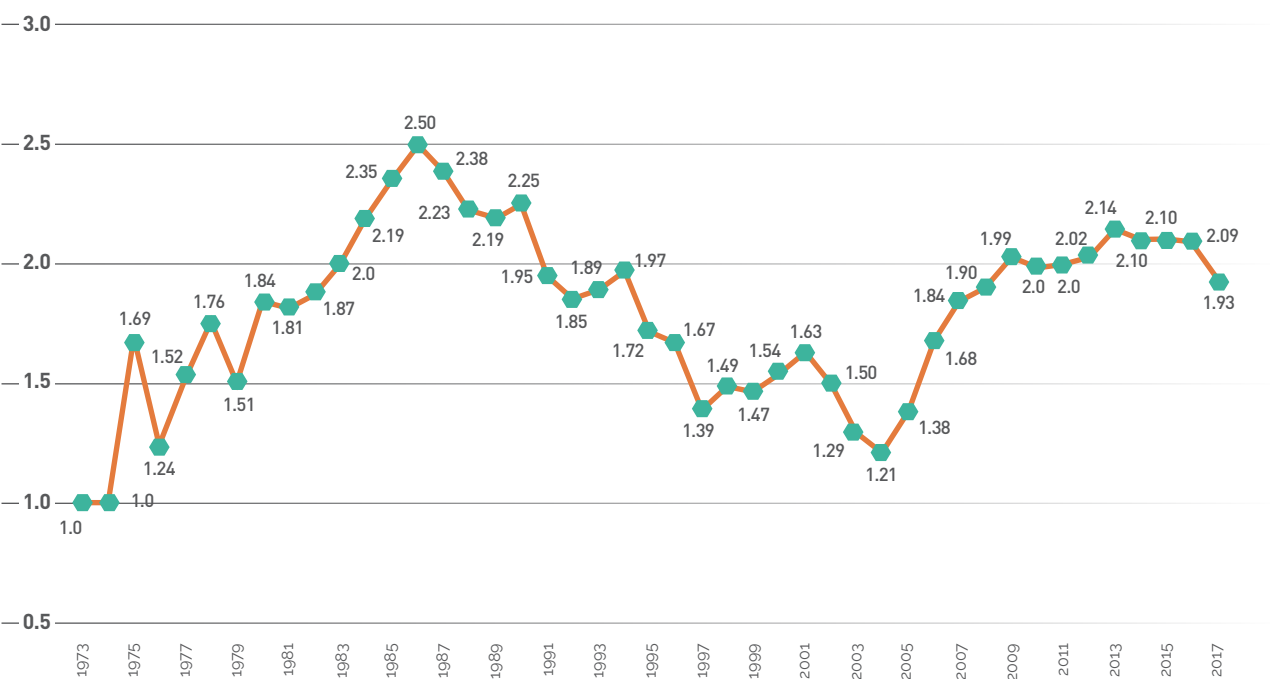
CONSOLIDATED STATEMENT OF FINANCIAL POSITION



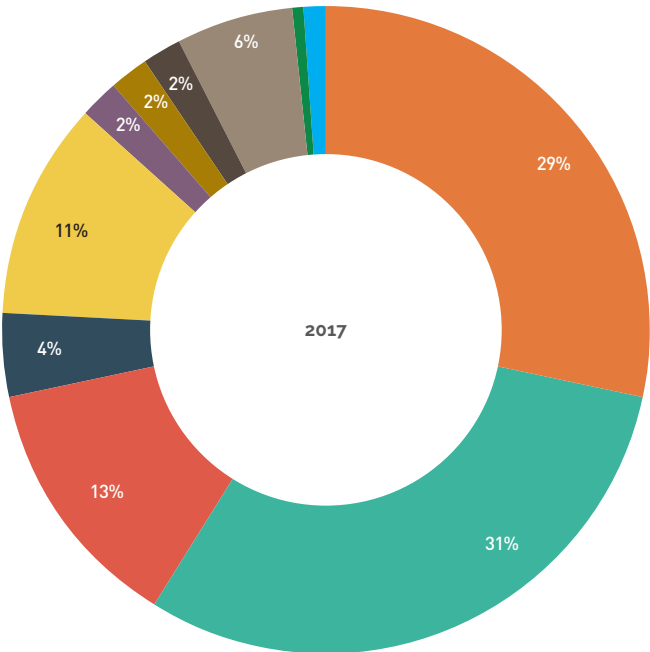
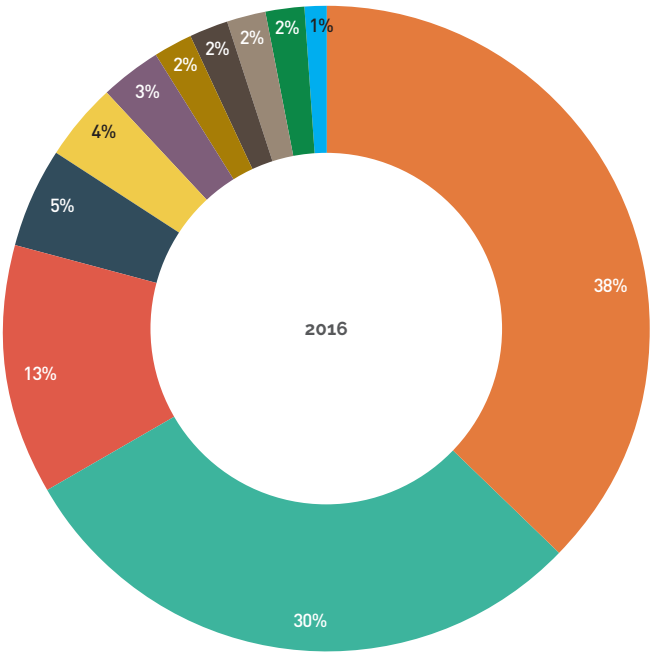
EVOLUTION OF LOANS AND ADVANCES AND CUSTOMERS' DEPOSITS



EVOLUTION OF BOOK VALUE OF SHARES



BREAKDOWN OF LOANS AND ADVANCES BY ECONOMIC SECTOR

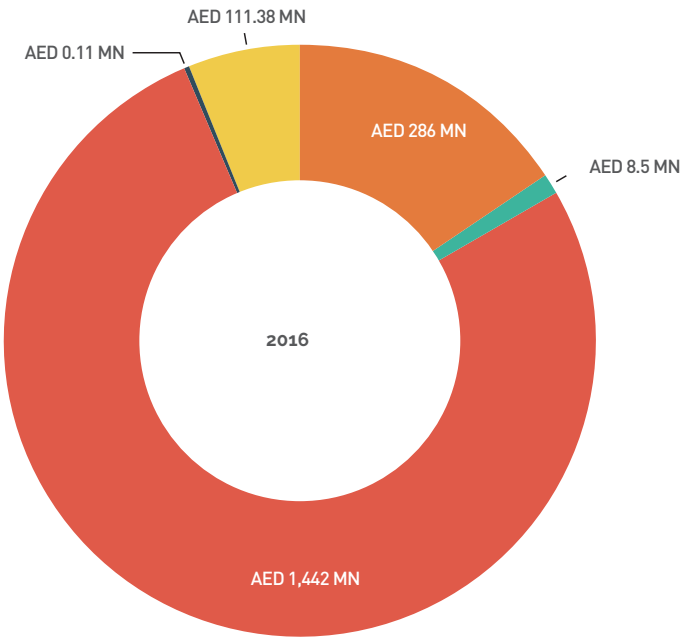


- Trading Services Manufacturing Construction Public Utilities Personal Loans for Commercial Purposes
- Personal Loans for Individual Purposes Mining and Quarrying Transport and Communication
- Financial Institution Government Agriculture Others

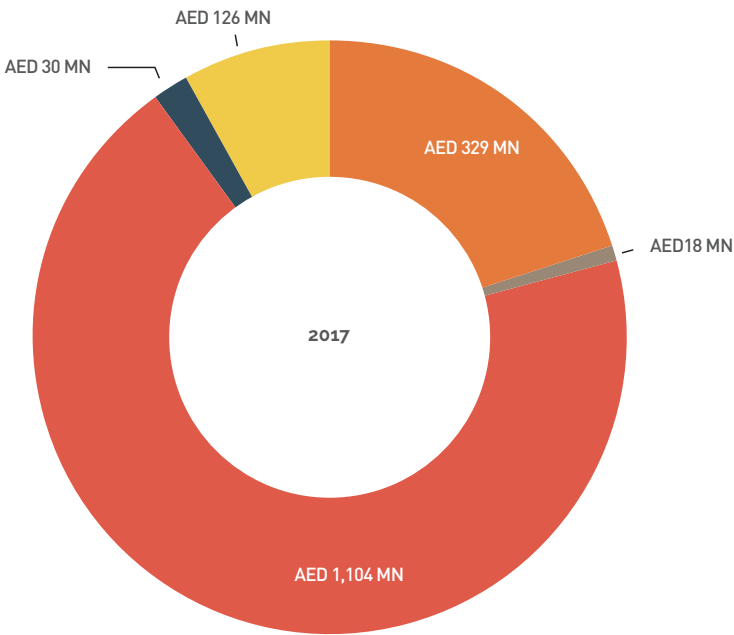


OTHER FINANCIAL ASSETS BREAKDOWN BY REGION

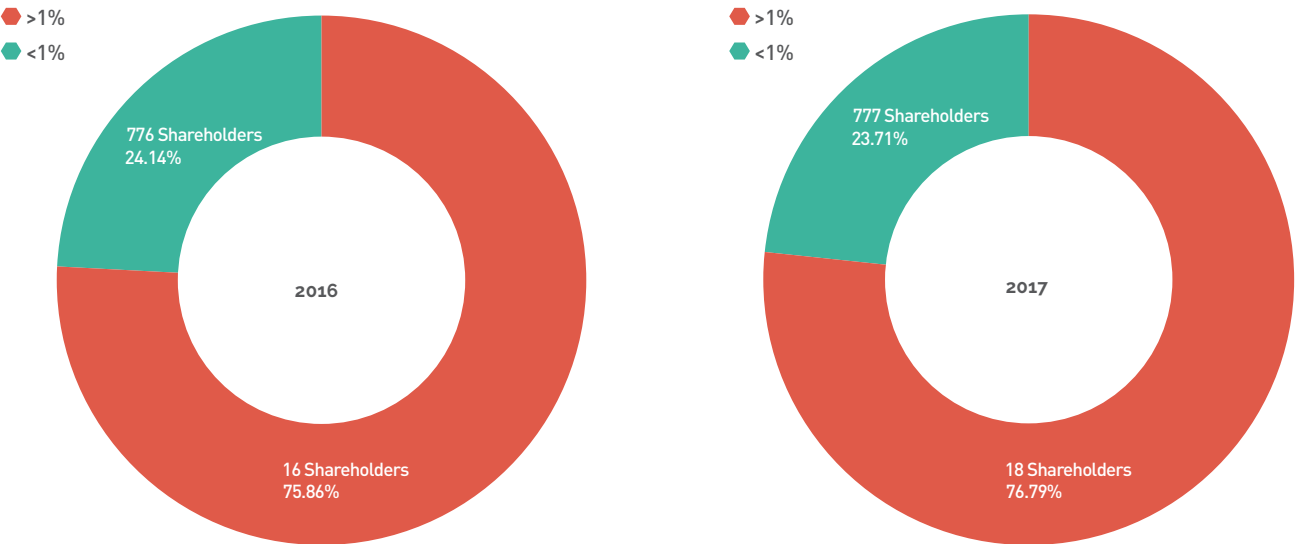
- SHARJAH: AED 286 Million, 16%
- GCC: AED 8.5 Million
- MENA: AED 1,442 Million, 78%
- EUROPE: AED 0.11 Million
- DUBAI: AED 111.38 Million, 6%



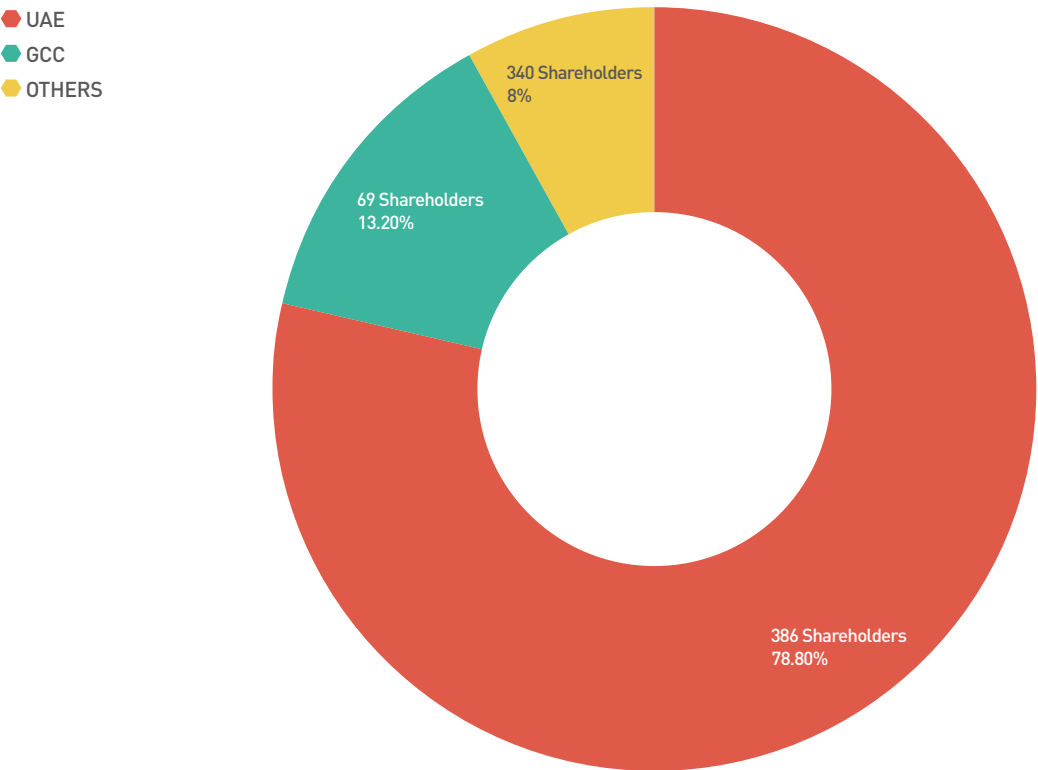
- SHARJAH: AED 329 Million, 20%
- ABU DHABI: AED 18 Million, 1%
- MENA: AED 1,104 Million, 78%
- EUROPE: AED 30 Million, 2%
- DUBAI: AED 126 Million, 8%



CAPITAL STRUCTURE

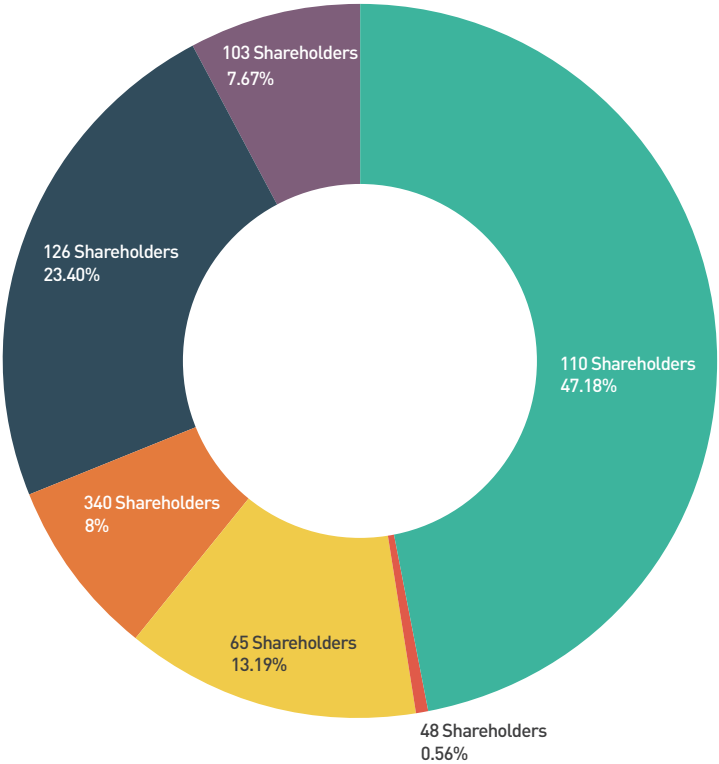


SHAREHOLDERS BY NATIONALITY & PERCENTAGE OF HOLDING AS AT DECEMBER 2017



SHAREHOLDERS BY EMIRATE FOR THE YEAR 2016

- ABU DHABI
- DUBAI
- SHARJAH
- OTHER EMIRATES
- GCC
- OTHERS



SHAREHOLDERS BY EMIRATE FOR THE YEAR 2017

- ABU DHABI
- DUBAI
- SHARJAH
- OTHER EMIRATES
- GCC
- OTHERS

