

**NATIONAL BANK OF OMAN
(SAOG)**

FINANCIAL STATEMENTS

31 DECEMBER 2016

REPORT OF THE MANAGEMENT

We are pleased to submit this report and the audited financial statements of National Bank of Oman (SAOG) – United Arab Emirates Branches (the “Branches”) for the year ended 31 December 2016.

Incorporation and registered offices

National Bank of Oman SAOG (the “Bank” or the “Head Office”) was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail banking, wholesale banking and investment banking services. The Bank in United Arab Emirates (“UAE”) operates with two branches i.e. Abu Dhabi and Dubai (the “Branches”) under a commercial bank licence granted by the UAE Central Bank. The registered office of the Branches is P.O. Box 3822, Abu Dhabi, UAE. Abu Dhabi Branch started its operation in 1996. Dubai Branch started its operation in December 2013.

Financial position and results

The financial position and results of the Branches for the year ended 31 December 2016 are set out in the accompanying financial statements.

The Branches recorded a total operating income of AED 100.42 million during the year ended 31 December 2016 (2015: AED 78.86 million) and incurred a net loss of AED 21.92 million for the year ended 31 December 2016 (2015: a profit AED 28.11 million).

Signed on behalf of the Management

Ahmed Al-Musalmi
Chief Executive Officer

NR

_____ 2017

National Bank of Oman (SAOG), UAE Branches

Financial statements 31 December 2016

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INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF NATIONAL BANK OF OMAN (SAOG) – UNITED ARAB EMIRATES BRANCHES

Report on the audit of the financial statements

Opinion

We have audited the financial statements of National Bank of Oman (SAOG) – United Arab Emirates Branches (the “Branches”), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branches as at 31 December 2016 and its financial performance and its cash flow 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 Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Branches in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the 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.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Branches’ 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 Branches’ or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branches’ financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

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

**INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF
NATIONAL BANK OF OMAN (SAOG) – UNITED ARAB EMIRATES BRANCHES
(continued)**

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

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

- Identify and assess the risks of material misstatement of the 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 Branches 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 Branches ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branches to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

**INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF
NATIONAL BANK OF OMAN (SAOG) – UNITED ARAB EMIRATES BRANCHES
(continued)**

Report on other legal and regulatory requirements

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

- i) the Branches have maintained proper books of account;
- ii) we have obtained all the information we considered necessary for the purposes of our audit;
- iii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iv) the financial information included in the management's report is consistent with the books of account of the Branches;
- v) investments during the year ended 31 December 2016, if any, are disclosed in note 9 to the financial statements;
- vi) note 25 reflects 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 Branches have contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 which would have a material impact on its activities or its financial position as at 31 December 2016; and
- viii) there were no social contributions made during the year ended 31 December 2016.

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

For Ernst & Young



Signed by:
Thodla Hari Gopal
Partner
Registration number: 689

30 April 2017

Dubai, United Arab Emirates

National Bank of Oman (SAOG), UAE Branches

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 AED'000	2015 AED'000
Assets			
Cash and balances with the UAE Central Bank	7	245,336	186,906
Due from banks	8	155,671	179,571
Due from Head Office and overseas branches	25	264,881	45,365
Customers' indebtedness for acceptances	28	94,330	161,961
Loans and advances to customers	4(b)	1,901,903	2,007,931
Investment securities	9	83,638	85,574
Property and equipment	10	4,643	2,979
Deferred tax asset	22	11,545	3,150
Other assets	11	10,545	8,138
Total assets		2,772,492	2,681,575
Liabilities			
Due to banks, Head Office and overseas branches	26	1,336,090	942,382
Deposits from customers	12	907,089	1,237,600
Liabilities under acceptances	28	94,330	161,961
Other liabilities	13	17,461	25,365
Total liabilities		2,354,970	2,367,308
Equity			
Branch capital	14	325,375	200,375
Legal reserve	15	29,061	29,061
Retained earnings		35,390	57,309
Fair value reserve		396	222
Total equity		390,222	286,967
Funding from Head Office			
Placement from Head Office	16, 25	27,300	27,300
Total equity and funding from Head Office		417,522	314,267
Total Liabilities, Equity and Funding from Head Office		2,772,492	2,681,575
Commitments and contingent liabilities	27	367,228	507,707

Ahmed Al-Musalmi
Chief Executive Officer

NR

Khalid Al Riyami
Country Head - UAE

National Bank of Oman (SAOG), UAE Branches

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	<i>Notes</i>	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Operating income			
Interest income	17	105,047	73,790
Interest expense	17	(27,799)	(16,888)
Net interest income	17	<u>77,248</u>	<u>56,902</u>
Net fees and commission income	18	17,591	18,188
		<u>94,839</u>	<u>75,090</u>
Net foreign exchange gain		3,372	1,940
Other operating income	19	2,207	1,831
Total operating income		<u>100,418</u>	<u>78,861</u>
Operating expenses			
Staff costs		(24,421)	(21,163)
Depreciation	10	(1,106)	(828)
Other operating expenses	20	(12,931)	(11,809)
Total operating expenses		<u>(38,458)</u>	<u>(33,800)</u>
Profit from operations before impairment losses		<u>61,960</u>	<u>45,061</u>
Net impairment charge	4(b)	(89,359)	(9,921)
(Loss) profit before income tax		<u>(27,399)</u>	<u>35,140</u>
Income tax, net	21	5,480	(7,028)
Net (loss) profit for the year		<u>(21,919)</u>	<u>28,112</u>
<i>Other comprehensive income to be classified to profit or loss in subsequent periods</i>			
Revaluation gain on AFS securities		174	222
Total comprehensive (loss) income		<u>(21,745)</u>	<u>28,334</u>

The attached notes 1 to 29 form part of these financial statements

National Bank of Oman (SAOG), UAE Branches

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	<i>Share capital AED '000</i>	<i>Legal reserve AED '000</i>	<i>Retained earnings AED '000</i>	<i>Fair value reserve AED '000</i>	<i>Total AED '000</i>
At 1 January 2015	52,500	26,250	32,008	-	110,758
Capital injected during the year (Note 14)	147,875	-	-	-	147,875
Profit for the year	-	-	28,112	-	28,112
Other comprehensive income	-	-	-	222	222
Total comprehensive income	-	-	28,112	222	28,334
Transfer to legal reserve	-	2,811	(2,811)	-	-
At 31 December 2015	200,375	29,061	57,309	222	286,967
At 1 January 2016	200,375	29,061	57,309	222	286,967
Capital injected during the year (Note 14)	125,000	-	-	-	125,000
Loss for the year	-	-	(21,919)	-	(21,919)
Other comprehensive income	-	-	-	174	174
Total comprehensive loss	-	-	(21,919)	174	(21,745)
At 31 December 2016	325,375	29,061	35,390	396	390,222

The attached notes 1 to 29 form part of these financial statements

National Bank of Oman (SAOG), UAE Branches

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	<i>Notes</i>	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Cash flows from operating activities			
Loss/(profit) before income tax		(27,399)	35,140
<i>Adjustments for:</i>			
Depreciation	10	1,106	828
Impairment charges	4(b)	95,971	16,051
Provision for employees' end of service benefits		1,009	675
Gain on disposal of property and equipment		-	(38)
Bonds premium amortization		2,110	1,859
		<u>72,797</u>	<u>54,515</u>
<i>Changes in:</i>			
Loans and advances to customers		10,057	(904,755)
Other assets		(2,407)	(5,898)
Due to banks, Head Office and overseas branches		238,527	543,734
Statutory reserve with CB UAE		(4,565)	(14,380)
Deposits from customers		(330,511)	269,857
Other liabilities		(1,877)	3,969
		<u>(17,979)</u>	<u>(52,958)</u>
Income tax paid	21	(8,941)	(4,592)
End of service benefits paid		(755)	(677)
		<u>(9,696)</u>	<u>(5,269)</u>
<i>Net cash (used in) operating activities</i>		<u>(27,675)</u>	<u>(58,227)</u>
Cash flows from investing activities			
Purchase of property and equipment	10	(2,770)	(444)
Proceeds from sale of property and equipment		-	38
Purchase of investment securities		-	(80,517)
		<u>(2,770)</u>	<u>(80,923)</u>
<i>Net cash (used in) investing activities</i>		<u>(2,770)</u>	<u>(80,923)</u>
Cash flows from financing activity			
Increase in branch capital	14	125,000	147,875
		<u>125,000</u>	<u>147,875</u>
<i>Net cash from financing activity</i>		<u>125,000</u>	<u>147,875</u>
Net increase in cash and cash equivalents		<u>94,555</u>	<u>8,725</u>
Cash and cash equivalents at 1 January		183,975	175,250
		<u>183,975</u>	<u>175,250</u>
Cash and cash equivalents at 31 December	24	<u>278,530</u>	<u>183,975</u>

The attached notes 1 to 29 form part of these financial statements

National Bank of Oman (SAOG), UAE Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

1 Legal status and activities

National Bank of Oman SAOG (the "Bank" or the "Head Office") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail banking, wholesale banking and investment banking services. The Bank in United Arab Emirates ("UAE") operates with two branches i.e. Abu Dhabi and Dubai (the "Branches") under a commercial bank licence granted by the UAE Central Bank. The registered office of the Branches is P.O. Box 3822, Abu Dhabi, UAE. Abu Dhabi Branch started its operation in 1996. Dubai Branch started its operation in December 2013.

During the year, the Bank obtained license for a branch in Jebel Ali to operate as electronic banking unit, which is yet to start its operations at reporting date.

The principal activities of the Branches are the granting of loans, advances and the provision of other commercial banking services.

The Branches employed 74 employees as of 31 December 2016 (31 December 2015: 70 employees).

The financial statements were authorised for issue by the Branches' management on 30 April 2017.

2 Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared on an ongoing basis in accordance with the International Financial Reporting Standards (IFRSs) issued by International Accounting Standards Board (IASB) and the requirements of applicable laws in the UAE.

The Federal Law No. (2) of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. (8) of 1984. The Branches are currently assessing the impact of the new law and expect to be fully compliant on or before the end of grace period on 30 June 2017.

2.2 Basis of measurement

The financial statements have been prepared on a historical cost basis except for Available-for-sale investments which are measured at fair value.

2.3 Functional and presentation currency

These financial statements have been presented using UAE Dirham ("AED"), which is the functional currency of the Branches. Except as otherwise indicated, financial information presented in AED has been rounded to the nearest thousand except when otherwise stated.

2.4 Significant accounting judgments and estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Going concern

The Branches' management has made an assessment of the Branches' ability to continue as a going concern and is satisfied that the Branches have the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Branches' ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Impairment losses on loans and advances and investment securities

The Branches reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of profit and loss account. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Branches make judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

2 Basis of preparation (continued)

2.4 Significant accounting judgments and estimates (continued)

Impairment losses on loans and advances and investment securities

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account data input from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.) and concentrations of risks.

In making an assessment of whether an investment is impaired, the Branches consider the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country as well as the intention, reflected in public statements, about the governments' and agencies' willingness to use those mechanisms. This includes an assessment of the depth of those mechanisms and irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Branches has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Branches measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Branches determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in the consolidated statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

The Branches use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 31 December 2016 and 2015, the Branches used level 1 valuation hierarchy for its investments.

The Bank's financial assets and financial liabilities at amortised cost including held to maturity, are categorised under Level 3 in the fair value hierarchy, as there is no active market for such assets and liabilities.

Classification of financial assets

On acquisition of financial assets, management decides whether it should be classified as investments at fair value through profit or loss, available for sale, held to maturity or as loans and advances. Further, determining whether or not the market for a quoted financial instrument is active requires judgement based on assessment of the volume/market conditions and availability of ready and regular quotes.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies.

3 Significant accounting policies

a) Foreign currency

Foreign currency transactions are recorded at rates of exchange ruling at the value date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions.

Forward foreign exchange contracts are translated into AED at mid-market rates of exchange at the reporting date. Foreign currency differences arising on translation are recognised in profit or loss. However, foreign currency differences arising from the translation of available-for-sale equity instruments are recognised in other Comprehensive Income.

b) Revenue recognition

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest and similar income and expense are recognised in profit or loss using the effective interest rate. The effective interest rate is the rate that 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 Bank estimates cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs, fees and basis 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 statement of profit or loss include:

- interest on financial assets and liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on available for sale investment securities calculated on an effective interest basis.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment and is not recognised as interest income (suspended interest).

c) Fees and commission income

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 recognised as the related services are provided.

d) Leases

Lease payments – lessee

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease

All of the Bank's operating lease contracts are renewable annually.

3 Significant accounting policies (continued)

e) Taxation

Current tax

Taxation is provided for in accordance with the instructions of the Department of Private Affairs of His Highness Shaikh Zayed Bin Sultan Al Nahyan, dated 11 September 2003 for Abu Dhabi and tax for Dubai Branch is paid in accordance with local regulations for assessment of tax on branches of foreign banks operating in Emirate of Dubai.

Income tax is recognised in the statement of profit or loss for the year. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

f) Financial assets and financial liabilities

(i) Recognition

The Branches initially recognise loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Branches becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3 Significant accounting policies (continued)

f) Financial assets and financial liabilities

(ii) Classification and measurement

Financial assets

The Branches uses the following categories to classify its financial instruments:

- Loans and receivables;
- Available-for-sale; and
- Held to maturity

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Branches does not intend to sell immediately or in the near term.

Loans and receivables include bank balances due from head office and branches, loans and receivables and acceptances.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale assets are intended to be held for an indefinite period of time and may be sold in future to manage liquidity requirements or in response to market fluctuation in interest rates or pricing of the financial assets

Interest income is recognised in the statement of profit or loss using the effective interest method. Dividend income is recognised in statement of profit or loss when the Branches become entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in statement of profit or loss. Impairment losses are recognised in statement of profit or loss.

Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is recycled to the statement of profit or loss.

Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Branches have the positive intent and ability to hold to maturity. Held-to-maturity assets are carried at amortised costs less impairment loss, if any.

(iii) Derecognition

The Branches derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Branches neither transfer nor retain substantially all of the risks and rewards of ownership and do not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in statement profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Branches is recognised as a separate asset or liability.

When the Branches have transferred their rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Branches continuing involvement in the asset. In that case, the Branches also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branch has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branches could be required to repay.

3 Significant accounting policies (continued)

f) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss for the year.

(iv) Offsetting

As per IAS 32, financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Branches have a legal right to set off the amounts and intend either to settle them 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 under IFRS, or for gains and losses arising from a group of similar transactions.

(v) Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the branches have access at that date. The fair value of liability reflects its non performance risk.

When available, the Branches measure the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Branches use valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Branches determine that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Branches on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Branches measure assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Branches recognise transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3 Significant accounting policies (continued)

f) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment

At each reporting date, the Branches assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- Significant financial difficulty of the borrower or issuer;
- Default or delinquency by a borrower;
- The restructuring of a loan or advance by the Branches on terms that the Branches would not consider otherwise;
- Indications that a borrower or issuer will enter bankruptcy; and
- Observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Branches consider evidence of impairment for financial asset held at amortised cost at both a specific asset and a collective level. All individually significant financial asset held at amortised cost are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial asset held at amortised cost that are not individually significant are collectively assessed for impairment by grouping together financial asset held at amortised cost with similar risk characteristics.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in the statement of profit or loss and reflected in an allowance account against financial assets held at amortised cost. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through statement of profit or loss.

Impairment losses on available-for-sale investment securities are recognised by recycling the losses accumulated in the fair value reserve in equity to statement of profit or loss. The cumulative loss that is reclassified from equity to statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in statement of profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through statement of profit or loss; otherwise, any increase in fair value is recognised through other comprehensive income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in other comprehensive income.

The Branches writes off a loan, either partially or in full, and any related allowance for impairment losses, when management determines that there is no realistic prospect of recovery.

g) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Branches in the management of their short-term commitments.

Cash and cash equivalents are non-derivative financial assets stated at amortised cost in the consolidated statement of financial position.

3 Significant accounting policies (continued)

h) Due from banks and financial institutions

These are non-derivative financial assets that are stated at amortised cost, less any allowance for impairment.

i) Investment securities

Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise debt securities. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in statement of profit or loss using the effective interest method. Dividend income is recognised in statement of profit or loss when the Branches become entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in statement of profit or loss. Impairment losses are recognised in statement of profit or loss.

Other fair value changes, other than impairment loss, are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to statement of profit or loss.

Non-trading investments

Included in non-trading investments are available-for-sale assets which are initially recognised at fair value plus incremental transaction costs directly attributable to the acquisition

After initial recognition, these investments are re-measured at fair value.

Interest income is recognised on available-for-sale debt securities using the effective interest rate, calculated over the asset's expected life. Premiums or discounts arising on the purchase of debt investment securities are included in the calculation of their effective interest rates. Dividends on equity instruments are recognised in the statement of profit or loss when the right to receive payment has been established.

Included in non-trading investments are held-to-maturity assets which are non-derivative assets with fixed or determinable payments and fixed maturity and that the Branches has the positive intent and ability to hold them till maturity. These are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- Sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- Sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

j) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are classified as loans and receivables and are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3 Significant accounting policies (continued)

k) Property and equipment

i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in statement of profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Branches. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Branches will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

- Leasehold improvements	3 to 5 years
- Motor vehicles	4 years
- Furniture	10 years
- Equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) Capital work in progress

Capital work in progress assets are assets in the course of construction for production, supply or administrative purposes, are carried at cost, less any recognised impairment loss. Cost includes all direct cost attributable to design and construction of the property capitalised in accordance with branches accounting policy. When the assets are ready for the intended use, the capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with the Branches policies.

(v) Impairment

The carrying amounts of the Branches' non financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit and loss.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. 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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses are recognised in the statement of profit or loss.

3 Significant accounting policies (continued)

l) Due to banks and Customer accounts

Due to banks and customer deposits are financial liabilities and are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method.

m) Impairment of non-financial assets

The carrying amounts of the Branches' non financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit and loss.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. 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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses are recognised in the statement of profit or loss.

n) Provisions

A provision is recognised if, as a result of a past event, the Branches has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

o) Staff terminal benefits

The terminal benefits are provided for in accordance with the employees' contracts of employment and applicable requirements of the UAE and Oman labour laws. Entitlement to these benefits is usually based upon the employees' length of service and completion of minimum service period. The expected costs of these benefits are accrued over the period of employment.

p) New/amended standards and interpretations effective from annual periods beginning on or after 1 January 2016

The accounting policies adopted are consistent with those used in the previous financial year, except for the following new standards and amendments to IFRS that are mandatorily effective for accounting periods beginning on or after 1 January 2016, except as indicated otherwise:

IFRS 14 Regulatory Deferral Accounts

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisition of interests

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

Amendments to IAS 27: Equity Method in Separate Financial Statements

Annual Improvements 2012-2014 Cycle

Amendments to IAS 1 Disclosure Initiative

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities

The adoption of the above standards and interpretations did not have any material impact on the consolidated financial statements of the Group.

3 Significant accounting policies (continued)

q) Standards issued but not yet effective

The following new and revised IFRSs are not mandatorily effective for the year ended 31 December 2016. However, they are available for early application. Paragraph 30 of IAS 8 requires entities to consider and disclose the potential impact of new and revised IFRSs that have been issued but are not yet effective. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- IFRS 9 Financial Instruments (1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (1 January 2018)
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date not decided)
- IFRS 16 Leases (1 January 2019)
- IAS 7 Disclosure Initiative – Amendments to IAS 7 (1 January 2017)
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (1 January 2017)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (1 January 2018)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (1 January 2018)
- Amendments to IAS 40- Transfers of Investment Property (1 January 2018)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (1 January 2018)
- Annual Improvement Plan IFRS 12 Disclosures of Interests in Other Entities – Clarification of the scope of the disclosure requirements in IFRS 12 (1 January 2017)
- Annual Improvement Plan IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters (1 January 2018)
- Annual Improvement Plan IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment – by – investment choice (1 January 2018)

The management anticipates that all of the above Standards and Interpretations will be adopted by the Group to the extent applicable to them from their effective dates. The adoption of these Standards, amendments and interpretations is not expected to have any material impact on the consolidated financial statements of the Group in the period of their initial application.

4 Financial risk management

a) Introduction and overview

The Branches have exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk

This note presents information about the Branches' exposure to each of the above risks, the Branches' objectives, risk management frameworks, policies and processes for measuring and managing risk, and the Branches' management of capital.

Risk management framework

The overall responsibility for risk management in the Branches is vested with the Board of Directors of the Bank. The Board authorises appropriate credit, liquidity and market risk policies as well as suitable operational guidelines based on the recommendation of management. Approval authorities are delegated to different functionaries, including the UAE Country Manager, in the hierarchy depending on the amount, type of risk and collateral security. The Bank has established various committees that decide on all risk issues.

The Branches' risk management policies are established to identify and analyse the risks faced by the Branches, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

At 31 December 2016

4 Financial risk management (continued)

b) Credit risk

Credit risk is the risk of financial loss to the Branches if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Branches seek to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. The Branches also monitor credit exposures and continually assesses the credit worthiness of counterparties. They also obtain security when appropriate.

Management of credit risk

Credit Risk is managed within the regulatory requirements of the Central Bank of UAE; risk framework provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. Control, monitoring and management of credit exposures and remedial management are done in coordination with respective Business Units as per established procedures

Corporate credit

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking and Financial Institutions exposures. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The branches follows risk based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The branches has implemented a customized Moody's Risk Analyst model for risk rating corporate borrowers. Corporate Credit Risk Division also provides advice and guidance to business units with a view to promoting best practices throughout the branches in the management of credit risk.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, public companies and large exposures. Further, the branches continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines.

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior

Management and the Board Risk Committee. Salient areas covered in the review include:

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean lending and name lending exposures

Risk mitigation policies

The branches manages limits and controls concentrations of credit risk in particular, with respect to individual counterparties and groups, and industries. The branches structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee and Board Risk Committee.

National Bank of Oman (SAOG), UAE Branches
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 At 31 December 2016

4 Financial risk management (continued)

b) Credit risk (continued)

Exposure to credit risk

The Bank measure their exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any. The carrying amounts of financial assets represent the maximum credit exposure.

	<i>Loans and advances</i>		<i>Investment securities</i>		<i>Others</i>		<i>Total</i>	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Loans	1,372,295	1,201,334	-	-	-	-	1,372,295	1,201,334
Overdrafts	163,870	102,570	-	-	-	-	163,870	102,570
Trust receipt	385,804	536,904	-	-	-	-	385,804	536,904
Bills discounted	153,998	241,466	-	-	-	-	153,998	241,466
Available-for-sale investments	-	-	34,363	35,298	-	-	34,363	35,298
Held to maturity investments	-	-	49,275	50,276	-	-	49,275	50,276
Cash and balances with the UAE Central Bank	-	-	-	-	245,336	186,906	245,336	186,906
Due from banks	-	-	-	-	155,671	179,571	155,671	179,571
Due from Head Office and Overseas branches	-	-	-	-	264,881	45,365	264,881	45,365
Other assets	-	-	-	-	10,545	8,138	10,545	8,138
	<u>2,075,967</u>	<u>2,082,274</u>	<u>83,638</u>	<u>85,574</u>	<u>676,433</u>	<u>419,980</u>	<u>2,836,038</u>	<u>2,587,828</u>
Interest suspended	(19,307)	(12,608)	-	-	-	-	(19,307)	(12,608)
Specific allowance for impairment	(121,549)	(28,527)	-	-	-	-	(121,549)	(28,527)
Collective allowance for impairment	(33,208)	(33,208)	-	-	-	-	(33,208)	(33,208)
Carrying amount, net	<u><u>1,901,903</u></u>	<u><u>2,007,931</u></u>	<u><u>83,638</u></u>	<u><u>85,574</u></u>	<u><u>676,433</u></u>	<u><u>419,980</u></u>	<u><u>2,661,974</u></u>	<u><u>2,513,485</u></u>

National Bank of Oman (SAOG), UAE Branches
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 At 31 December 2016

	<i>Loans and advances</i>		<i>Investment securities</i>		<i>Others</i>		<i>Total</i>	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
4 Financial risk management (continued)								
b) Credit risk (continued)								
Exposure to credit risk (continued)								
Individually impaired								
Substandard	26	4,153	-	-	-	-	26	4,153
Doubtful	98,762	-	-	-	-	-	98,762	-
Loss	68,292	39,625	-	-	-	-	68,292	39,625
Gross amount	167,079	43,778	-	-	-	-	167,079	43,778
Interest suspended	(19,307)	(12,608)	-	-	-	-	(19,307)	(12,608)
Specific allowance for impairment	(121,549)	(28,528)	-	-	-	-	(121,549)	(28,528)
Carrying amount	26,223	2,642	-	-	-	-	26,223	2,642
Neither past due nor impaired								
Normal	1,818,381	1,999,619	83,638	85,574	676,433	419,980	2,578,452	2,505,173
Accounts with renegotiated terms	-	-	-	-	-	-	-	-
Past due but not impaired	1,818,381	1,999,619	83,638	85,574	676,433	419,980	2,578,452	2,505,173
	90,507	38,878	-	-	-	-	90,507	38,878
Total non-impaired portfolio	1,908,888	2,038,497	83,638	85,574	676,433	419,980	2,668,959	2,544,051
Collective allowance for impairment	(33,208)	(33,208)	-	-	-	-	(33,208)	(33,208)
Carrying amount	1,875,680	2,005,289	83,638	85,574	676,433	419,980	2,635,751	2,510,843
Carrying amount, net	1,901,903	2,007,931	83,638	85,574	676,433	419,980	2,661,974	2,513,485

National Bank of Oman (SAOG), UAE Branches
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 At 31 December 2016

4 Financial risk management (continued)

b) Credit risk (continued)

Impaired loans and advances

The Branches regard a loan and advance or a debt security as impaired in the following circumstances:

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.
- A loan is overdue beyond the stated contractual terms.
- A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Loans and investment debt securities that are past due but not impaired

Loans and investment debt securities that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Branches believe that impairment is not appropriate on the basis of the sufficient level of security or collateral available to cover the outstanding amount and/or the stage of collection of amounts owed to the Branches.

Loans with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3.

For the purposes of disclosures in these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Branches has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Branches had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, earlier repayment or until it is written off.

The Branches hold collateral against loans and advances to customers in the form of cash margins, pledges/ liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Branches accept guarantees mainly from well reputed local or international banks/financial institutions, well established local or multinational organisations, large corporate and high net worth individuals. Estimates of fair value are based on the value of collateral assessed at the time of borrowing which are updated during annual reviews. Generally, collateral is not held over loans and advances to other banks or financial institutions, except when securities are held as a part of reverse repurchase and securities borrowing activity.

It is the Branches' policy to ensure that loans are extended to customers within their capability to service interest and repay principal instead of relying excessively on securities. Accordingly, depending on customers' credit worthiness and the type of product, facilities may be unsecured. Nevertheless, collateral is and can be an important credit risk mitigant.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below.

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Cash and margin	85,937	90,612
Commercial and industrial property	1,366,740	1,136,858
Residential property	48,110	45,950
Other	1,702	500
Total collateral held	1,502,489	1,273,920

Collateral values reflect the maximum exposure or the value of the collateral whichever is lower.

National Bank of Oman (SAOG), UAE Branches
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 At 31 December 2016

4 Financial risk management (continued)

b) Credit risk (continued)

Concentration of credit risk

The Branches internally monitor concentrations of credit risk by sector and geographical location. An analysis of concentrations of credit risk as defined by the Branches' internal approved guidelines at the reporting date is shown below:

In AED'000	<i>Loans and advances</i>		<i>Investment securities</i>		<i>Others</i>	
	2016	2015	2016	2015	2016	2015
Carrying value, net	1,901,903	2,007,931	83,638	85,574	431,098	233,074
Concentration by sector:						
Sovereign	73,460	48,973	83,638	85,574	-	-
Construction	243,180	322,895	-	-	-	-
Trade	670,398	751,617	-	-	-	-
Real estate and real estate trading	154,088	131,759	-	-	-	-
Manufacturing	236,957	235,910	-	-	-	-
Services	507,766	316,193	-	-	-	-
Banks and Financial Institutions	170,213	251,673	-	-	420,551	224,936
Retail	6,497	9,350	-	-	-	-
Others	13,408	13,905	-	-	10,547	8,138
Gross total	2,075,967	2,082,275	83,638	85,574	431,098	233,074
Concentration by location:						
United Arab Emirates	2,075,967	2,082,275	83,638	85,574	145,677	133,110
Outside UAE	-	-	-	-	285,421	99,964
Gross total	2,075,967	2,082,275	83,638	85,574	431,098	233,074

Interest is accrued on doubtful and loss accounts for litigation purposes only and accordingly interest is not taken to income. Such accruals increase gross loans and advances receivable. Loans and advances are written off only when all legal and other avenues for recovery or settlement are exhausted.

The movement during the year within the impairment provision balance is as follows:

	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
At 1 January	33,207	18,239	28,528	27,507
Charge for the year (see (i) below)	-	14,968	95,971	1,083
Recoveries during the year	-	-	(2,949)	-
Amounts written off during the year	-	-	-	(62)
	33,207	33,207	121,550	28,528

4 Financial risk management (continued)

b) Credit risk (continued)

- (i) Provision for credit losses amounting to AED 89,359 thousand (2015: AED 9,921 thousand) represents charge for the year amounting to AED 95,971 thousand (2015: AED 16,051 thousand), netted off against recoveries of amounts written off of AED 6,612 thousand (2015: AED 6,130 thousand)

Settlement risk

The Branches' activities may give rise to risk at the time of settlement of transactions and trades. 'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Branches mitigate this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both the parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approvals from the Bank's risk function.

c) Liquidity risk

Liquidity risk is the risk that the Branches will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. To limit this risk, management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade asset which could be collateralised to secure additional funding if required.

The Branches maintain liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition, the Branches hold certain liquid assets as part of its liquidity risk management strategy.

The Branches manage liquidity risk based on the Central Bank of UAE guidelines and the liquidity contingency policies, which are approved by the Board Risk Committee. Liquidity risk position is monitored regularly through analysis of various reports, such as, maturity of assets and liabilities, liquidity lines, early warning indicators and stock ratios. Further, the Branches also periodically conduct stress tests on liquidity based on market and bank specific events in line with Basel Committee recommendations. The liquidity position of the Branches are regularly reviewed by management and also discussed at the Branches' Asset and Liability Committee ('ALCO').

The key elements of the Branches' liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities;
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- Monitoring liquidity ratios, maturity mismatches; and
- Carrying out stress testing of the liquidity position.

National Bank of Oman (SAOG), UAE Branches
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 At 31 December 2016

4 Financial risk management (continued)

c) Liquidity risk (continued)

Residual contractual maturity of financial liabilities

The following table shows the undiscounted cash flows on the Branches' financial liabilities on the basis of their earliest possible contractual maturity. The Branches' expected cash flow on these instruments may vary significantly from this analysis.

	<i>Carrying Amount AED'000</i>	<i>Gross nominal outflow AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 months to 1 year AED'000</i>	<i>1 to 5 years AED'000</i>
2016					
Non-derivative liabilities					
Deposits from Head Office and overseas branches	(1,336,090)	(1,354,394)	(320,398)	(981,596)	(52,400)
Deposits from customers	(907,089)	(916,613)	(788,539)	(84,915)	(43,159)
	<u>(2,243,179)</u>	<u>(2,271,007)</u>	<u>(1,108,937)</u>	<u>(1,066,511)</u>	<u>(95,559)</u>
2015					
Non-derivative liabilities					
Deposits from Head Office and overseas branches	942,382	(952,560)	(162,882)	(403,560)	(386,118)
Deposits from customers	1,237,600	(1,250,842)	(932,222)	(312,051)	(6,569)
	<u>2,179,982</u>	<u>(2,203,402)</u>	<u>(1,095,104)</u>	<u>(715,611)</u>	<u>(392,687)</u>

The Branches have established policies to manage the liquidity risk arising from the mismatch in the maturities of the assets and liabilities. These policies ensure that all obligations are met by the Branches on a timely and cost efficient basis. The following table shows the expected maturity of the branches' assets and liabilities.

	<i>Up to 3 months AED'000</i>	<i>3 months to 1 year AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Unspecified maturity AED'000</i>	<i>Total AED'000</i>
At 31 December 2016					
Assets					
Cash and balances with the UAE Central Bank	245,336	-	-	-	245,336
Due from other banks	155,671	-	-	-	155,671
Due from Head Office and overseas branches	250,189	-	14,692	-	264,881
Loans and advances to customers	614,579	160,348	1,126,976	-	1,901,903
Customers' indebtedness for acceptances	-	-	94,330	-	94,330
Investment securities	-	-	83,638	-	83,638
Property and equipment	-	-	-	4,643	4,643
Other assets	6,941	3,604	11,545	-	22,090
Total assets	<u>1,272,716</u>	<u>163,952</u>	<u>1,331,181</u>	<u>4,643</u>	<u>2,772,492</u>
Liabilities and equity					
Due to Head Office and overseas branches	316,068	968,330	51,692	-	1,336,090
Deposits from customers	780,346	84,033	42,710	-	907,089
Liabilities under acceptances	-	-	94,330	-	94,330
Other liabilities	5,689	11,772	-	-	17,461
Equity	-	-	-	390,222	390,222
Placement from Head Office	-	-	-	27,300	27,300
Total liabilities and equity	<u>1,102,103</u>	<u>1,064,135</u>	<u>188,732</u>	<u>417,522</u>	<u>2,772,492</u>

National Bank of Oman (SAOG), UAE Branches
NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2016

4 Financial risk management (continued)

c) Liquidity risk (continued)

	<i>Up to 3 months AED'000</i>	<i>3 months to 1 year AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Unspecified maturity AED'000</i>	<i>Total AED'000</i>
At 31 December 2015					
<i>Assets</i>					
Cash and balances with the UAE Central Bank	186,906	-	-	-	186,906
Due from other banks	179,571	-	-	-	179,571
Due from Head Office and overseas branches	30,673	-	14,692	-	45,365
Loans and advances to customers	761,857	245,713	1,000,361	-	2,007,931
Customers' indebtedness for acceptances	-	-	161,961	-	161,961
Investment securities	-	-	85,574	-	85,574
Property and equipment	-	-	-	2,979	2,979
Other assets	3,352	4,786	3,150	-	11,288
Total assets	1,162,359	250,499	1,265,738	2,979	2,681,575
<i>Liabilities and equity</i>					
Due to Head Office and overseas branches	161,142	399,248	381,992	-	942,382
Deposits from customers	922,353	308,747	6,500	-	1,237,600
Liabilities under acceptances	-	-	161,961	-	161,961
Other liabilities	8,941	16,424	-	-	25,365
Equity	-	-	-	286,967	286,967
Placement from Head Office	-	-	-	27,300	27,300
Total liabilities and equity	1,092,436	724,419	550,453	314,267	2,681,575

d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads will affect the Branches' income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Bank-wide organisational set up for market risk management of the UAE operations involves the Board Risk Committee at the Board level and various committees at the management level.

Board Risk Committee ('BRC')

BRC is responsible for establishing a comprehensive and integrated framework for managing credit risk, market risk (including risks relating to interest rate, liquidity and foreign exchange) and operational risk. The Committee sets the policies on all risk issues.

Management Risk Committee ('MRC')

MRC is the highest ruling authority at management level on all risk related issues of the Bank. Its responsibilities include oversight on management of interest rate risk, liquidity risk and all market risks including foreign exchange risk.

UAE ALCO

The UAE ALCO includes, among others, the UAE Country Manager, Head of Treasury, Head of Finance and other members as decided by the UAE Country Manager as well as invitees from Global Treasury and Market Risk, Oman. UAE ALCO is responsible for reviewing reports on liquidity, interest rate risk, money market lines, foreign exchange during the monthly UAE ALCO meetings. It is also responsible for escalating market risk issues to Global ALCO through the Head of Market Risk (Oman).

National Bank of Oman (SAOG), UAE Branches
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 At 31 December 2016

4 Financial risk management (continued)

d) Market risk (continued)

Market Risk and Mid-Office, Oman

Considering the currently limited scale of the UAE operations, Market Risk (Oman) assists in formulating policies for UAE. Mid-Office (Oman) independently monitors the foreign exchange exposure against net open position limits based on reports prepared by UAE treasury operations.

Country Manager, UAE

The Country Manager is responsible for updating Market Risk (Oman), UAE ALCO and Global ALCO on all changes in regulatory environment and ensuring compliance to all internal and regulatory limits (set up by the Central Bank of Oman and the Central Bank of UAE) for foreign exchange, liquidity, interest rate, etc.

Exposure to interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the future profitability or the fair value of the financial instruments. The Branches are exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period. The Branches manage this risk by matching the repricing of assets and liabilities through risk management strategies.

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. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument.

The Branches' interest rate sensitivity position, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

Assets and liabilities repricing profile

	<i>Effective interest rate</i>	<i>Less than 3 months AED'000</i>	<i>3 months to 1 year AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Non-interest bearing AED'000</i>	<i>Total AED'000</i>
2016						
Assets						
Cash and balances with the UAE Central Bank	-	-	-	-	245,336	245,336
Due from banks	0.29%	155,671	-	-	-	155,671
Due from Head office and overseas branches	0.45%	14,692	-	-	250,189	264,881
Loans and advances to customers	4.87%	614,580	160,348	1,126,975	-	1,901,903
Customers' indebtedness for acceptances	-	-	-	-	94,330	94,330
Investment securities	3.01%	-	-	83,638	-	83,638
Property and equipment	-	-	-	-	4,643	4,643
Deferred tax asset	-	-	-	-	11,545	11,545
Other assets	-	6,940	-	-	3,605	10,545
Total assets		791,883	160,348	1,210,613	609,648	2,772,492
Liabilities and equity						
Due to Head Office and overseas branches	1.37%	56,000	968,330	51,692	260,068	1,336,090
Deposits from customers	1.05%	589,135	84,033	42,710	191,211	907,089
Liabilities under acceptances	-	-	-	-	94,330	94,330
Other liabilities	-	5,689	11,772	-	-	17,461
Equity	-	-	-	-	390,222	390,222
Placement from Head Office	-	-	-	-	27,300	27,300
Total liabilities and equity		650,824	1,064,135	94,402	963,131	2,772,492
Interest rate sensitivity gap		141,059	(903,787)	1,116,211	(353,483)	(0)
Cumulative interest rate sensitivity gap: As of 31 December 2016		141,059	(762,728)	(353,483)		

National Bank of Oman (SAOG), UAE Branches
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 At 31 December 2016

4 Financial risk management (continued)

d) Market risk (continued)

Exposure to interest rate risk (continued)

Assets and liabilities repricing profile (continued)

2015	Effective interest rate	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Non-interest bearing AED'000	Total AED'000
Assets						
Cash and balances with the UAE Central Bank	-	-	-	-	186,906	186,906
Due from banks	0.33%	179,571	-	-	-	179,571
Due from Head Office and overseas branches	2.25%	14,692	-	-	30,673	45,365
Loans and advances to customers	4.58%	761,857	245,713	1,000,361	-	2,007,931
Customers' indebtedness for acceptances	-	-	-	-	161,961	161,961
Investment securities	2.98%	-	-	85,574	-	85,574
Property and equipment	-	-	-	-	2,979	2,979
Deferred tax asset	-	1,913	-	-	1,237	3,150
Other assets	-	4,589	-	-	3,549	8,138
Total assets		962,622	245,713	1,085,935	387,305	2,681,575
Liabilities and equity						
Due to Head Office and overseas branches	1.08%	138,461	399,248	381,992	22,681	942,382
Deposits from customers	1.07%	657,304	308,747	6,500	265,049	1,237,600
Liabilities under acceptances	-	-	-	-	161,961	161,961
Other liabilities	-	8,941	16,424	-	-	25,365
Equity	-	-	-	-	286,967	286,967
Placement from Head Office	-	-	-	-	27,300	27,300
Total liabilities and equity		804,706	724,419	388,492	763,958	2,681,575
Interest rate sensitivity gap		157,916	(478,706)	697,443	(376,653)	-
Cumulative interest rate sensitivity gap: As of 31 December 2015		157,916	(320,790)	376,653		

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Branches have set limits on positions by currency. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

At the reporting date, the Branches' had the following net (long) and positive exposures denominated in foreign currency:

	2016 AED'000	2015 AED'000
United States Dollar ('USD')	2,089	(43,825)
Omani Riyal	(20)	22
Euros	7	28
Pound Sterling	5	32
	2,081	(43,743)

USD is pegged against AED and therefore, the Branches' exposure is limited to that extent.

4 Financial risk management (continued)

e) Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

Operational risks emanate from every segment of the Branches' operations and are faced by all the business units. The Branches cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Branches are able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the Bank now has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set off thresholds are reported to the Board Risk Committee.

f) Capital risk management and Basel II requirements

Capital allocation

The Branches' lead regulator, the Central Bank of the UAE ('CBUAE'), sets and monitors regulatory capital requirements.

The objectives when managing capital are as follows.

- Safeguarding the Branches' ability to continue as a going concern; and
- complying with regulatory capital requirements set CBUAE.

The policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Branches recognise the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Branches also assess their capital requirements internally taking into consideration growth requirements and business plans, and quantifies its regulatory and risk or economic capital requirements within its integrated ICAAP Framework. Risks such as interest rate risk in the banking book, concentration risk, strategic risk, legal and compliance risk, stress risk, insurance risk and reputational risk are all part of the ICAAP.

The Branches' regulatory capital adequacy ratio is set by CBUAE. The Branches' have determined their regulatory capital as recommended by the Basel II Capital Accord, in line with the guidelines of CBUAE with effect from 2007. The Branches' have adopted the Standardised Approach for credit risk and market risk and the Basic Indicator Approach for operational risk. The Branches have complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Branches' management of capital during the year. The Central Bank has advised that the capital adequacy ratio should be 12% analysed into two tiers, of which tier 1 capital adequacy must not be less than 8% .

Capital allocation

The Branches' regulatory capital is analysed into two tiers as follows:

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings; and
- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on investments classified as available-for-sale and derivatives held as cash flow hedges, general provision and subordinated term loans. The following limits have been applied for Tier 2 capital:
 - Total tier 2 capital shall not exceed 67% of tier 1 capital;
 - Subordinated liabilities shall not exceed 50% of total tier 1 capital; and
 - General provision shall not exceed 1.25% of total credit risk weighted assets.

National Bank of Oman (SAOG), UAE Branches
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 At 31 December 2016

4 Financial risk management (continued)

f) Capital risk management and Basel II requirements (continued)

Capital allocation (continued)

The Branches' regulatory capital position at 31 December was as follows:

	2016 AED'000	2015 AED'000
<i>Tier 1 capital</i>		
Branch capital	325,375	200,375
Legal reserve	29,061	29,061
Placement from Head Office	27,300	27,300
Retained earnings	35,390	57,309
Total tier 1 capital	417,126	314,045
<i>Tier 2 capital</i>		
Cummulative changes in fair value	396	222
General provisions/general loan loss reserves	26,420	27,673
Total tier 2 capital	26,816	27,895
Total regulatory capital	443,942	341,940
<i>Risk weighted assets</i>		
Credit risk	2,113,599	2,213,834
Market risk	12	60
Operational risk	140,604	90,760
Total risk weighted assets ('RWA')	2,254,215	2,304,654
Total regulatory capital expressed as a % of RWA	19.69%	14.84%
Total tier I capital expressed as a % of RWA	18.50%	13.63%

National Bank of Oman (SAOG), UAE Branches
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 At 31 December 2016

5 Classes and categories of financial instruments

<i>At 31 December 2016</i>	<i>Held at amortised cost</i>			<i>Total carrying amount AED '000</i>
	<i>Loans and Receivables AED '000</i>	<i>Held to maturity and others AED '000</i>	<i>Available-for-sale AED '000</i>	
Financial assets				
Cash and balances with the UAE Central Bank	-	245,336	-	245,336
Due from banks	-	155,671	-	155,671
Due from Head Office and overseas branches	-	264,881	-	264,881
Customers' indebtedness for acceptances	-	94,330	-	94,330
Loans and advances to customers	1,901,903	-	-	1,901,903
Investment securities	-	49,275	34,363	83,638
Other assets	-	22,090	-	22,090
	1,901,903	831,583	34,363	2,767,849
Financial liabilities				
Due to Head Office and overseas branches	-	1,336,090	-	1,336,090
Deposit from customers	-	907,089	-	907,089
Liabilities under acceptances	-	94,330	-	94,330
Other liabilities	-	17,461	-	17,461
	-	2,354,970	-	2,354,970
<i>At 31 December 2015</i>				
Financial assets				
Cash and balances with the UAE Central Bank	-	186,906	-	186,906
Due from banks	-	179,571	-	179,571
Due from Head Office and overseas branches	-	45,365	-	45,365
Customers' indebtedness for acceptances	-	161,961	-	161,961
Loans and advances to customers	2,007,931	-	-	2,007,931
Investment securities	-	50,276	35,298	85,574
Other assets	-	11,288	-	11,288
	2,007,931	635,367	35,298	2,678,596
Financial liabilities				
Due to Head Office and overseas branches	-	942,382	-	942,382
Deposit from customers	-	1,237,600	-	1,237,600
Liabilities under acceptances	-	161,961	-	161,961
Other liabilities	-	25,365	-	25,365
	-	2,367,308	-	2,367,308

6 Segmental analysis

The Branches operate in one geographical area, the United Arab Emirates, and their results arise largely from commercial banking, treasury and investment activities. Since the capital of the Branches is not publicly traded, no segmental analysis has been presented.

National Bank of Oman (SAOG), UAE Branches
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 At 31 December 2016

7 Cash and balances with the UAE Central Bank

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Cash in hand	5,512	10,112
Deposits in current account with the UAE Central Bank	183,225	124,760
Statutory reserve deposits with the UAE Central Bank	56,599	52,034
	<u>245,336</u>	<u>186,906</u>

Statutory reserve deposits are required to maintain as per regulations of the UAE Central Bank; the deposits are not available for the branches' day-to-day operations and are non-interest bearing. The level of reserve required changes periodically in accordance with directives of the Central Bank.

8 Due from banks

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Money market placements	135,131	91,825
Current accounts	20,540	87,746
	<u>155,671</u>	<u>179,571</u>

9 Investment securities

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Available-for-sale financial assets	34,363	35,298
Held to maturity	49,275	50,276
	<u>83,638</u>	<u>85,574</u>

The investment securities comprise of marketable debt securities only.

Fair value hierarchy

The table below analyses the financial instruments, measured at fair value at the end of reporting period, by level into fair value hierarchy into which the fair value measurement is categorised:

At 31 December 2016

	<i>Level-1</i>	<i>Level-2</i>	<i>Level-3</i>	<i>AED'000</i> <i>Total</i>
Investment Securities - available for sale	34,363	-	-	34,363
Investment Securities - held to maturity	-	49,278	-	49,278
	<u>34,363</u>	<u>49,278</u>	<u>-</u>	<u>83,641</u>

At 31 December 2015

Investment Securities - available for sale	35,298	-	-	35,298
Investment Securities - held to maturity	-	50,299	-	50,299
	<u>35,298</u>	<u>50,299</u>	<u>-</u>	<u>85,597</u>

During the year, there were no transfer between level 1 and level 2 of fair value hierarchy above and no financial instruments were classified with level 3 of fair value hierarchy at any time during the current or prior year. Further there has been no change in the valuation technique in relation to the valuation of financial instruments during the year.

Fair values

The fair value of all financial assets and liabilities approximates their carrying value as of the reporting date and would qualify for a level 2 disclosure under IFRS.

National Bank of Oman (SAOG), UAE Branches
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 At 31 December 2016

10 Property and equipment

	<i>Leasehold improvements and CWIP AED'000</i>	<i>Furniture and equipment AED'000</i>	<i>Motor Vehicles AED'000</i>	<i>Total AED'000</i>
Cost				
At 1 January 2016	4,219	5,194	539	9,952
Additions	1,958	812	-	2,770
Disposals	-	(492)	-	(492)
At 31 December 2016	6,177	5,514	539	12,230
Accumulated depreciation				
At 1 January 2016	2,540	4,179	254	6,973
Charge for the year	516	455	135	1,106
Disposals	-	(492)	-	(492)
At 31 December 2016	3,056	4,142	389	7,587
Net book value at 31 December 2016	3,121	1,372	150	4,643
Cost				
At 1 January 2015	4,025	5,035	577	9,637
Additions	194	163	87	444
Disposals	-	(4)	(125)	(129)
At 31 December 2015	4,219	5,194	539	9,952
Accumulated depreciation				
At 1 January 2015	2,321	3,703	250	6,274
Charge for the year	219	480	129	828
Disposals	-	(4)	(125)	(129)
At 31 December 2015	2,540	4,179	254	6,973
Net book value at 31 December 2015	1,679	1,015	285	2,979

National Bank of Oman (SAOG), UAE Branches
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11 Other assets

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Interest receivable	6,941	4,589
Sundry debtors and prepayments	3,604	3,549
	<u>10,545</u>	<u>8,138</u>

12 Deposits from customers

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Current and other accounts	265,666	287,633
Savings accounts	26,847	29,037
Term deposits	614,576	920,930
	<u>907,089</u>	<u>1,237,600</u>

13 Other liabilities

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Accrued interest payable	5,689	5,217
Staff entitlements (note 23)	3,461	3,207
Accounts payable and sundry creditors	5,397	8,000
Income tax payable (note 21)	2,914	8,941
	<u>17,461</u>	<u>25,365</u>

14 Branch capital

Branch capital represents amount transferred from the Head Office in accordance with Article 80 of Union Law No. 10 of 1980. The branch capital meets the minimum requirement of UAE Central Bank for branches of foreign banks operating in the UAE.

During the year, the Central Bank of Oman approved additional assignment of capital of Oman Riyal of 30 million (AED 286 million) for UAE Branches, in phases.

During the year the share capital of the Branches increased from AED 200,375 thousands in 2015 to AED 325,375 thousands pursuant to the decision of the Board of Directors Meeting held on 14 December 2015. The increase in the share capital was fully paid, through a cash injection amounting to AED 125,000 thousands from the Head office National Bank of Oman SAOG (Note 25).

15 Reserves

In accordance with Article 82 of Union Law No. 10 of 1980, an annual transfer of 10% of the net profit for the year is to be made to a non-distributable Legal reserve until the reserve equals half of the Branches' capital. There were no transfers made during the year (2015: AED 2,811 thousand) as the Branches incurred losses for the year 2016.

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16 Placement from Head Office

This represents additional funding provided by the Head Office in order to meet the CBUAE requirements regarding the capital adequacy ratio. The placement is a non-interest bearing AED deposit. The placement will be progressively reduced in a manner that will not compromise CBUAE's capital adequacy ratio requirements. In accordance with CBUAE circular number 372, the Branches include this placement as part of their capital for the purpose of calculating capital adequacy ratio (note 4) in its CBUAE quarterly returns.

17 Net interest income

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Interest income:		
Loans and advances	101,560	71,163
Placements with banks	895	454
Income from investment securities	2,592	2,173
	<u>105,047</u>	<u>73,790</u>
Interest expenses:		
Term deposits	(12,026)	(12,468)
Saving accounts	(50)	(64)
Call deposits	(37)	(16)
Borrowings from banks and overseas branches	(15,686)	(4,340)
	<u>(27,799)</u>	<u>(16,888)</u>
	<u>77,248</u>	<u>56,902</u>

18 Net fees and commission income

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
<i>Fees and commission income:</i>		
Letters of credit	1,245	1,566
Letters of guarantee	2,915	2,631
Commission on acceptances	1,598	1,286
Retail and corporate lending fees	9,529	11,707
Others	2,402	1,120
	<u>17,689</u>	<u>18,310</u>
Less: <i>Fees and commission expenses:</i>		
Service charges	(98)	(122)
	<u>17,591</u>	<u>18,188</u>

19 Other operating income

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Service charges		
Telex charges	1,179	1,053
Service charges	162	136
Miscellaneous income	866	642
	<u>2,207</u>	<u>1,831</u>

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 At 31 December 2016

20 Other operating expenses

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Rent, rates and taxes	6,618	6,355
Repair expenses	784	919
Management fee (note 25)	3,167	2,392
Others	2,362	2,143
	<u>12,931</u>	<u>11,809</u>

21 Income tax

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Balance at 1 January	8,941	3,067
Charge for the year	2,914	8,941
Paid during the year	(8,941)	(3,067)
Balance at 31 December	<u>2,914</u>	<u>8,941</u>
<i>Charge for the year, net</i>		
Current tax	2,914	8,941
Deferred tax income (note 22)	(8,394)	(1,913)
Charge for the year, net	<u>(5,480)</u>	<u>7,028</u>

22 Deferred tax asset

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Deferred tax asset are attributable to the following:		
Allowance for impairment	9,567	9,567
Carried forward tax losses	41,971	-
	<u>51,538</u>	<u>9,567</u>
Movement in temporary difference during the year is as under:		
Opening deferred tax asset	3,150	1,237
Created during the year	8,395	1,913
Closing deferred tax asset	<u>11,545</u>	<u>3,150</u>

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22 Deferred tax asset (continued)

	<i>Opening balance AED'000</i>	<i>Recognised in statement of profit and loss AED'000</i>	<i>Closing balance AED'000</i>
2016			
Allowances for impairment	9,567	-	9,567
	<u>9,567</u>	<u>-</u>	<u>9,567</u>
2015			
Allowances for impairment	-	9,567	9,567
	<u>-</u>	<u>9,567</u>	<u>9,567</u>

The Branches are required to pay tax at the rate of 20% of taxable profits (2015: 20%). The taxable income for the year is calculated after making certain adjustments to the net profit before tax for the year and is based on management's best estimate.

23 Staff's other entitlements

	<i>2016 AED'000</i>	<i>2015 AED'000</i>
Employees' end-of-service benefits	3,398	3,085
Others	63	122
	<u>3,461</u>	<u>3,207</u>

The Branches provide for employees' end-of-service benefits in accordance with the employees' contracts of employment and the applicable requirements of the UAE labor laws. The movements in the employees' end-of-service benefits liability are as follows:

	<i>2016 AED'000</i>	<i>2015 AED'000</i>
Balance at 1 January	3,085	3,087
Provided during the year	1,009	675
Paid during the year	(696)	(677)
Balance at 31 December	<u>3,398</u>	<u>3,085</u>

24 Cash and cash equivalents

	<i>2016 AED'000</i>	<i>2015 AED'000</i>
Cash and balance with CBUAE	245,336	186,906
Due from banks, Head Office and overseas branches maturing within three months	405,861	210,244
Deposits from other banks maturing within three months	(316,068)	(161,141)
Statutory deposit with CB UAE	(56,599)	(52,034)
	<u>278,530</u>	<u>183,975</u>

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25 Related party transactions

The aggregate balances with related parties as of the statement of financial position date are as follows:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Placement from Head Office (note 16)	27,300	27,300
Due from Head Office and overseas branches	264,881	45,365
Due to Head Office and overseas branches (note 26)	(495,140)	(257,753)
Management fee payable to Head Office	(3,167)	(2,392)
	<u> </u>	<u> </u>

Transactions with related parties

The following balances represent transactions with the Head Office and other branches which were customers of the Branches during the year. The terms of these transactions are approved by the Branches' management.

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Interest expense on deposits	(3,225)	(2,522)
Management fees charged by Head Office (note 20)	(3,167)	(2,392)
Interest income on placements	357	238
	<u> </u>	<u> </u>

Compensation of key management personnel

Salaries and other short term benefits	1,988	1,002
End-of-service benefits	109	87

26 Due to Banks, Head Office and overseas branches

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Borrowing from banks	840,950	684,629
Balances with Head Office and branches	495,140	257,753
	<u> </u>	<u> </u>
	<u>1,336,090</u>	<u>942,382</u>

27 Commitments and contingent liabilities

Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned are as follows:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Letters of credit	52,839	111,430
Letters of guarantee	314,389	396,277
	<u> </u>	<u> </u>
	<u>367,228</u>	<u>507,707</u>

Acceptances

Under IAS 39, acceptances are recognised on statement of financial position with corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

28 Customers' indebtedness for/liabilities under acceptances

Customers' indebtedness for acceptances represents the accepted documented liability amount which is recoverable from the respective customers of the Branches at the reporting date. Liabilities under acceptances represents bills of exchange, letters of credit etc where the Branches have accepted the liabilities under documentary credits at the reporting date. These assets and liabilities have been presented on a gross basis on the face of the statement of financial position as the Branches do not have a legal right of set-off.

29 Comparative figures

Certain comparative figures have been reclassified where necessary to conform to current year's presentation, the effect of which are considered immaterial.