ANNUAL REPORT 2015

البنك العربي المتحد
UNITED ARAB BANK

His Highness Sheikh Khalifa Bin Zayed Al Nahyan
President of the United Arab Emirates

His Highness Sheikh Mohammed Bin Rashid Al Maktoum
Vice President and Prime Minister of the United Arab Emirates
and Ruler of Dubai

His Highness Dr. Sheikh Sultan Bin Mohammed Al Qasimi
Supreme Council Member and Ruler of Sharjah

His Highness Sheikh Mohammed Bin Zayed Al Nahyan
Crown Prince of Abu Dhabi and Deputy Supreme Commander
of the UAE Armed Forces

BRANCHES

Head Office

UAB Tower
Al Majaz Street
Buhaira Corniche
P.O. Box 25022
Telephone: +971 6 5075 222
Fax: +971 6 5075 950
Call Center: 800 474
Swift code: UARBAEAA
www.uab.ae

Sharjah

UAB Tower Branch
UAB Tower, Al Majaz Street
Buhaira Corniche
P.O. Box 25022

Mareijah Branch
Mina Office Building
Al Mina Road
P.O. Box 881

Corniche Branch
Al Muhannad Tower
Buhaira Corniche
P.O. Box 60868

King Faisal Street Branch
Utmost Building
Abu Shagara
King Faisal Street
P.O. Box 23226

Industrial Area Branch
Abdullah Rashid Al Shamsi Building
Sharjah Industrial Area - 12
P.O. Box 150730

Juraina Branch
Matajer Al Juraina
Muweileh Suburb
P.O. Box 28741

Mirgab Branch
Matajer Al Mirgab
Al Heira Suburb
P.O. Box 28497

Abu Dhabi

Khalifa Street Branch
Sheikh Faisal Bin Sultan Al Qassimi
Building GIBCA, Khalifa Street
P.O. Box 3562

Khalidiya Branch
Al Montazah Tower, Plot No. C-63
Zayed First Street
Al Khalidiya Area
P.O. Box 94002

Marina Square Branch (Reem Island)
Paragon Bay Mall
Al Reem Island
P.O. Box 109197

Al Raha Branch
Shop No.3, Building-C, Al Zeina
Al Raha Beach Area
P.O. Box 146004

Mussafah Industrial Area Branch
Ahmad Mubarak Building
Ground Floor & Mezzanine Floor
Musaffah Industrial Area
P.O. Box 133444

Al Ain

Al Ain Branch
Sheikh Faisal Bin Sultan Al Qassimi Building
Sheikh Zayed 1st Street
P.O. Box 16077

Ras Al Khaimah

Dehan Branch
Sheikh Faisal Bin Sultan Al Qassimi Building
Sheikh Mohammed Salem Al Qassimi Street
Dehan Al Sharqiya
P.O. Box 38282

Nakheel Branch
Health Building
Al Muntasir Street
Al Nakheel
P.O. Box 615

Dubai

Deira Branch
Al Salemiyah Tower
Baniyas Street, Deira
P.O. Box 4579

Jebel Ali Branch
Jebel Ali Free Zone
Plot No.MO 0697, Gate No.5
Jebel Ali
P.O. Box 16823

Sheikh Zayed Road Branch
Al Moosa Tower II
Sheikh Zayed Road
P.O. Box 34893

Oud Metha Branch
Eleganza Apartments, Showroom No.S3
Oud Metha Road
P.O. Box 120767

Al Mas Branch
Al Mas Tower
Jumeirah Lakes Towers
P.O. Box 392185

Al Quoz Branch
Reemas Building, Ground Floor
First Floor - Offices 1, 2, 8, 9, 10 & 11
Al Quoz First Area, Sheikh Zayed Road
P.O. Box 392066

Business Bay Branch
Executive Tower, Bay Avenue Part J, Shop No.10
Business Bay
P.O Box 27589

Dubai Media City Branch
Concorde Towers, Floor 1
Dubai Media City
P.O. Box 390074

Tecom Branch
Grosvenor Business Tower, Showroom No.S07
Al Thanyah First, Tecom
P. O. Box 390091

Ajman

Ajman Branch
GMC Hospital Complex
Sharjah-Ras Al Khaimah Highway Road
P.O. Box 2700

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The Board revisited the Bank's strategic direction with the objective of building a simpler, lower risk and efficient Bank, focusing on its historic strength of serving the corporate market.

H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

Dear Shareholders,

On behalf of the Board of Directors I am honored to present the Bank's Annual Report and Consolidated Financial Statements for the year ended 31st December 2015.

The changing economic environment led to numerous challenges that the Board had to address to ensure the Bank continued to be in the strongest position to support the UAE economy. Given these challenges, the Board revisited the Bank's strategic direction during the fourth quarter with the objective to build a simpler, lower risk and efficient Bank, focusing on its historic strength of serving the corporate market.

As part of this process there were a number of management changes as well as enhancements to the Bank's corporate governance, risk management culture and internal control framework. Going forward, these initiatives will serve as a platform to propel the Bank to greater results and achievements in service excellence and profitability in the years to come.

These initiatives will serve as a platform to propel the Bank to greater results and achievements in service excellence and profitability in the years to come.

The future is indeed bright and the Board and Management are fully committed to pursue strategies that will re-position the Bank in order to generate sustainable returns for its shareholders.

With a view to positive future prospects for UAB, what remains is to express my appreciation and gratitude to all of our esteemed shareholders, customers and partners for their invaluable support.

My deep and sincere gratitude goes to members of the Board as well as the management and employees of UAB whose ongoing commitment allowed us to successfully navigate through a difficult period for the Bank.

I would also like to thank the Central Bank, and all our regulators, for their ongoing support.

Finally, on behalf of our shareholders, I would like to express our appreciation to His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE; His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE; His Highness Sheikh Dr. Sultan bin Muhammad Al Qassimi, Member of the Supreme Council and Ruler of Sharjah; and His Highness General Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, for their vision, leadership and support.

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

I am confident that our lower risk, cost efficient, customer focused strategy is the right one in the current environment. It capitalizes on UAB's capabilities and is consistent with our reduced risk appetite.

Samer Tamimi
Acting Chief Executive Officer

Dear Shareholders,

If I am to describe 2015 in one word: defining.

United Arab Bank and its team endured challenging times in the latter part of 2015 and managed to emerge stronger, more efficient and better focused. Against the backdrop of a slowing economy and a phenomenon of defaults in the SME loan book, the Bank revisited its strategy with the aim to create a more efficient and sustainable bank, centralized around its historic strength of serving the UAE corporate market and supported by retail and treasury offerings. Today, our strategic position is clear, with the Board and Management Team setting defined plans for each of our respective businesses.

Our ability to absorb significant provisions, whilst maintaining and even enhancing our financial fundamentals underlines the strength of the Bank. In everything we do, we place the safety and soundness of the institution first, with this demonstrated by our capital strength, improved funding and liquidity profiles, a robust loan coverage ratio and an enhanced enterprise risk management approach.

As part of this transformation we commenced the process of proactively deleveraging from our higher risk loan portfolios in H2 2015 and have structured our business between 'core' and 'non-core' activities.

Across 2016, we will remain committed to executing this strategy, increasing returns and investing in our 'core' business, whilst continuing to deleverage our 'non-core' assets in an economically rationale manner. This approach will allow the Bank to streamline its operating model which will further support delivery of sustainable returns for its shareholders.

As UAB moves forward we are committed to embedding solid foundations, with these centered upon:

- Generating consistent and quality returns: deepening customer relationships, building revenues organically within our 'core' businesses to generate acceptable returns for our shareholders;

Our ability to absorb significant provisions, whilst maintaining and even enhancing our financial fundamentals underlines the strength of the Bank.

- Sound decision-making: aided by strategic clarity, focusing on capturing efficiencies, managing risk and embedding a culture of accountability; and
- Rebuilding trust and credibility with all stakeholders: with UAB viewed as an indisputably strong and stable institution

These foundations will be delivered via:

- An intense focus on execution and improved operating efficiency;
- Adopting a simple business model with the capability to provide key banking products and services in a customer friendly manner;
- Communicating clear goals and performance metrics; and
- Striving towards cost leadership

Whilst there is still work to do, we made sustained and consistent progress in the latter half of 2015, providing strong evidence that our strategy is working.

The ongoing delivery of our strategic priorities will ensure we are well placed to anticipate and react to the challenges that undoubtedly lie ahead. To that effect it is crucial at all times we acknowledge we are only in business to serve our clients – and this is true of every aspect of our business. Every loan we make or service, every account we open or maintain, every financing we support or complete is to serve our clients. Our role is to consistently strive to do a better job for all our clients – and to do it faster, smarter and better than our competitors.

Nothing is more vital to meeting the needs of our clients and to the long-term growth of UAB than our ability to attract and retain talented and dedicated employees. Ensuring we have the best people, training and leadership requires that we do many things right, from recruiting and training to recognizing, rewarding and developing leaders. They provide an essential pillar on which we can build sustainable success as a responsible business dedicated to meeting our clients' needs.

I am confident that our lower risk, cost efficient, customer focused strategy is the right one in the current environment. It capitalizes on UAB's capabilities and is consistent with our reduced risk appetite.

We acknowledge we have made and will continue to make mistakes, but we hope to identify them early, fix them quickly and learn from them. From my experience the best way to achieve this objective is to continuously focus on building a great company, with first-rate products and services, excellent systems, effective controls and outstanding people. If you continually look to build a great company, shareholder returns follow. With the guidance of our Board, ongoing support of 'The Commercial Bank' and commitment of our people, we are well positioned to support the UAE economy and deliver strong and sustainable returns for our shareholders.

You can rest assured that your Management Team and Board are completely focused on all the opportunities, issues and risks that we have ahead of us. As we look towards the future, we see significant opportunities for the Bank, and our people are fully engaged in pursuing them.

Thank you for your continued support.

Samer Tamimi
Acting Chief Executive Officer

H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi

CHAIRMAN OF UAB

Re-elected to the Board in 2014 for a term of 3 years

Founder of United Arab Bank, H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi has served as the Chairman of the Board of Directors since the Bank's inception in 1975 and has since then remained the largest single individual shareholder of the Bank.

Beyond his instrumental role at UAB, H.E. Sheikh Faisal is currently the Chairman of the Board of Directors of a number of private companies. He also formerly served as the Chairman of the Board of Arab Organization of Industries and Establishment.

H.E. Served in the UAE Armed Forces in different capacities prior to retiring at the rank of Major General including Under Secretary of the Ministry of Defense, Chief of Staff, and Chairman of the Court of Crown Prince at the time – H.H. Sheikh Khalifa bin Zayed Al Nahyan.

H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi graduated from Jordanian Officer Cadet School and Mons Officer Cadet School in UK.

External Board Appointments:

- Chairman – GIBCA Group of Companies
- Chairman – Faisal Holding LLC
- Chairman – Grand Stores
- Chairman – Hospitality Management Holdings LLC

Mr. Omar Hussain Alfardan

VICE CHAIRMAN OF UAB

Chairman – Board Executive Committee

Re-elected to the Board in 2014 for a term of 3 years

Mr. Alfardan is serving as Vice Chairman of the Board of Directors and represents The Commercial Bank, the largest corporate shareholder of United Arab Bank.

Mr. Alfardan holds a BA in Business Administration and a Masters in Finance from Webster University, Geneva.

External Board Appointments:

- Board Member – The Commercial Bank (Q.S.C.)
- Board Member and Director – Alfardan subsidiaries
- Board Member – United Development Company P.S.C., Qatar
- Board Member – Arabian Agencies Company LLC, Qatar
- Board Member – Qatar Red Crescent Society

Other External Appointments:

- President & CEO – Alfardan Group Holding, Alfardan Hotels & Resorts, Alfardan Automotive Group (Qatar and Oman) and Alfardan Properties (Qatar and Oman)
- Trustee – American University, Beirut

Sheikh Abdullah Bin Ali Bin Jabor Al Thani

DIRECTOR

Chairman - Board Risk Committee

Re-elected to the Board in 2014 for a term of 3 years

Sheikh Abdullah has served on the Board of Directors of United Arab Bank since February 2008 as a representative of The Commercial Bank, the largest corporate shareholder of UAB. He was re-appointed in 2011 by the Annual General Assembly.

He holds a BA in Social Science from Qatar University.

External Board Appointments:

- Chairman – The Commercial Bank (Q.S.C.)
- Deputy Chairman – National Bank of Oman

Other External Appointments

- Owner – Vista Trading Company
- Partner – Dar Al Manar
- Partner – Domopan Qatar
- Partner – Integrated Intelligence Services

H.E. Sheikh Mohammed Bin Faisal Al Qassimi
DIRECTOR

Member - Board Executive Committee
Member - Board Risk Committee

Re-elected to the Board in 2014 for a term of 3 years

H.E. Sheikh Mohammed Bin Faisal Al Qassimi is the founder of MANAFA LLC, a holding company with diversified activities in the fields of hospitality, real estate, private equity and Equity investment.

H.E. Sheikh Mohammed Bin Faisal Al Qassimi graduated from Webster University in Business Administration and Accounting.

H.E. Sheikh Mohammed Bin Faisal Al Qassimi holds key directorships and senior positions at various business groups and associations including the Italian Chamber of Commerce in the UAE and the GCC and Faisal Holding Co LLC.

H.E. Sheikh Mohammed is a member of CMA and the Society of Technical Analysts of UK.

Mr. Andrew C. Stevens
DIRECTOR

Member - Board Executive Committee
Member - Board Credit Committee
Member – Board Risk Committee

Re-elected to the Board in 2014 for a term of 3 years

Mr. Stevens is a representative of The Commercial Bank (Q.S.C.) on the UAB Board. He was previously a member of Executive Management of The Commercial Bank and, prior to that with Standard Chartered Bank serving in Ireland, Hong Kong, Bahrain and Uganda.

Mr. Stevens graduated from Birmingham University, England with a B.Com (Hons) in Banking and Finance.

External Board Appointments:
- Board Member – Alternatifbank, Turkey
- Board Member – National Bank of Oman
- Chairman – Orient 1 Limited, Bermuda
- Vice Chairman – CBQ Finance Ltd, Bermuda
- Board Member – QIC International LLC, Qatar
- Advisor to the Board of Directors - The Commercial Bank (Q.S.C)
- Chairman - Alternatif Yatırım A.S., Turkey
- Vice Chairman - Alternatif Finansal Kiralama A.S., Turkey

Mr. Mohamed Abdulbaki Mohamed
DIRECTOR

Chairman - Board Audit Committee
Member - Board Risk Committee
Member - Board Credit Committee

Re-elected to the Board in 2014 for a term of 3 years

Mr. Abdulbaki has extensive experience in the banking sector.

He previously served as the CEO of Emirates Development Bank, General Manager of the Emirates Industrial Bank and Acting CEO of the Real Estate Bank. He also served as Chairman / Board Member for a number of institutions and companies including OPEC Fund for International Development (OFID), Emirates National Plastics Industry, Abu Dhabi National Hotels Co., National District Cooling (TABREED), Foodco Holding, ISO Octane Co., American Community School (ACS), Arab Fund for Economic and Social Development, Cristal Hotels and Resorts Co., Interplast and Cosmoplast Co., and Le Chaine Des Rotissuer.

Mr. Abdulbaki has a Bachelor of Science from the Polytechnic Institute of New York, U.S.A.

External Board Appointments:
- Chairman and CEO – Petrolcom Oil and Gas Service

Mr. Ahmed Mohamad Bakheet Khalfan
DIRECTOR

Chairman – Board Credit Committee
Member – Board Audit Committee
Member – Board Risk Committee

Re-elected to the Board in 2014 for a term of 3 years

Mr. Khalfan previously served as the Deputy General Manager of Emirates Industrial Bank and was Chairman of the Board of Directors of Emirates Modern Poultry Company and Vice Chairman of Emirates Rawabi. He also served as Board Member for various companies in the UAE including ALICO, Gulf Glass, and Takaful Re.

Mr. Khalfan graduated with a Bachelor of Science with honors from the North Eastern University, Boston.

Mr. Nicholas Coleman
DIRECTOR

Member – Board Credit Committee
Member – Board Audit Committee
Member – Board Risk Committee

Re-elected to the Board in 2014 for a term of 3 years

Mr. Coleman serves as a representative of The Commercial Bank on the UAB Board.

Mr. Coleman served as the Group Chief Financial Officer for The Commercial Bank from 2008 to 2013. Previously he held CFO roles in London with Morgan Stanley, The Bank of New York, Royal Bank of Scotland and National Westminster Bank. He also worked with Arthur Young in Kuwait.

Mr. Coleman graduated from London Guildhall University with a Bachelor in Economics with honors in Economics and is a Fellow of the Institute of Chartered Accountants in England and Wales.

External Board Appointments:
- Board Member – Alternatifbank, Turkey
- Board Member – Alternatif Finansal Kiralama A.S., Turkey

Ms. Najla Al Midfa
DIRECTOR

Member - Board Executive Committee
Member – Board Risk Committee

Re-elected to the Board in 2014 for a term of 3 years

Ms. Al Midfa is the General Manager of Sharjah Entrepreneurship Center (Sheraa), a government entity that aims to nurture a vibrant startup ecosystem in Sharjah, and provide entrepreneurs with a launchpad for success. She is also the founder of Khayarat, a social enterprise that enables young Emiratis to make informed career choices and achieve success in the private sector.

In her previous role, as Senior Manager at the Khalifa Fund for Enterprise Development, Ms. Al Midfa led a team of business counselors through the due diligence process: counseling entrepreneurs, evaluating business plans, and selecting ventures for financing. Prior to joining Khalifa Fund, Ms. Al Midfa was a senior associate at McKinsey and Company's New York office, where she worked on a range of strategy-related projects, primarily serving clients across the financial institutions sector. Her previous work experience also includes roles within PricewaterhouseCoopers and Shell.

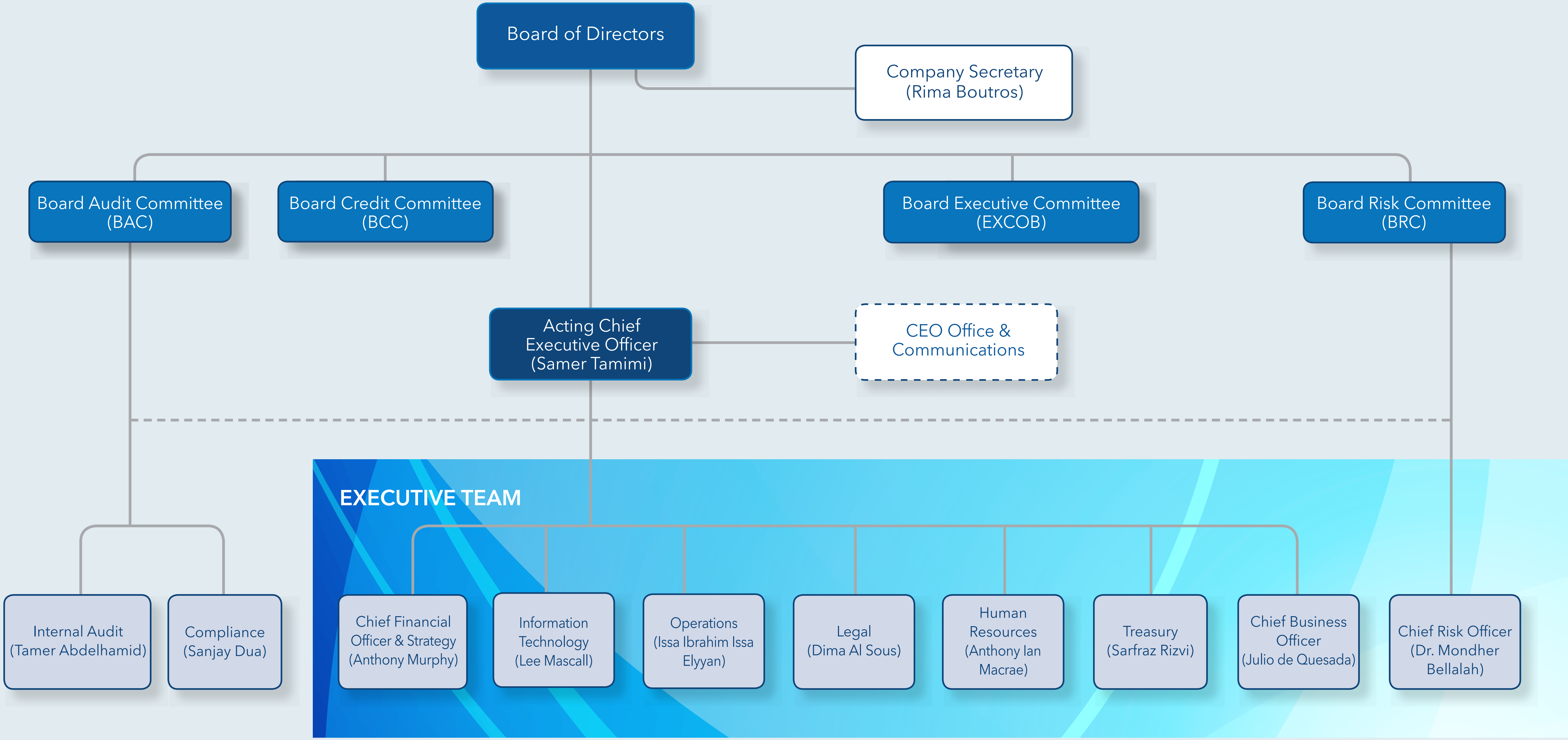
Ms. Al Midfa holds a Bachelor of Science with honors from the University of Bath in the UK, and an MBA from Stanford University.

External Board Appointments:
- Vice-Chairperson and Board Member – Young Arab Leaders (UAE Chapter)
- Board Member – Education for Employment (UAE Chapter)

Other External Appointments:
- Fellow – The Aspen Institute's Middle East Leadership Initiative
- Member – The Aspen Institute's Global Leadership Network


UNITED ARAB BANK
ATM
UAB مكافآت
REWARDS
SPREAD YOUR WINGS
UAB Rewards to get you soaring
Over 900 airlines and 200,000 hotels worldwide
150 car rental destinations
Thousands of electronic & lifestyle products
Official Barça merchandise

ORGANIZATIONAL CHART



Management Committees (formed by the CEO):

- Executive Management Committee (EXCOM)
- General Management Credit Committee (GMCC)
- Asset, Liabilities & Investment Committee (ALCO)
- General Management Risk Committee (GMRC)
- Special Assets Committee (SAC)
- Business Technology Investment Committee (BTIC)

OVERVIEW

United Arab Bank (UAB) embarked on a transformational journey in 2015. Faced with the negative effects of a slowing economy, the Bank revisited its direction during the fourth quarter to build a more efficient and sustainable bank, better focused on its historic strength of serving the UAE corporate market.

UAB's strong funding, capital and liquidity fundamentals supported these transformation efforts, with the Bank proactively deleveraging from its higher risk loan portfolio. As a result, UAB improved the quality of its loan portfolio and maintained its strong capital adequacy ratio at 14.7%, with the Bank's robust liquidity profile demonstrated by an Advances to Stable Resources ratio of 80.9% and an Eligible Liquid Asset Ratio of 18.7%, both comfortably above Central Bank thresholds.

As part of the restructuring drive, UAB enhanced its risk management culture and strengthened its Senior Management Team by appointing a number of senior executives. Moreover, the Bank's cost base has been overhauled to capture material year on year cost reductions from 2016 onwards with definitive actions taken to align both the headcount and branch network with the new streamlined operating model.

UAB's prudent provisioning approach in the last 6 months of 2015 impacted its full year financial results. Consequently, the Bank reported a Net Loss of AED 166 million for the twelve months ending 31st December 2015, compared to a net profit of AED 605 million in 2014. However, this decisive action enabled UAB to retain a robust risk buffer, with a Non-performing Loan Coverage Ratio of 124%.

This transformational strategy will ensure UAB is well positioned to weather the challenging economic environment while actively supporting the UAE economy, as it has for the past 40 years.

As we move into 2016, UAB will focus on its core business units, on cost leadership, on capital efficiency and on maintaining a prudent risk and funding profile to deliver value to its customers and sustainable returns to its shareholder returns.

UAB STRAGETIC FOCUS

OUR AIM

Building a simpler, lower risk and sustainabile Bank

OUR OPERATING MODEL

CORE OFFERING

Corporate & Institutional Banking

COMPLIMENTED BY

Treasure & Capital Markets

Retail Banking

SUSTAINED BY

Efficient Support Functions

OUR STRATEGIC PRIORITIES

Generating quality returns within "core" business	Deleveraging from Riskier Asset Portfolios	Deepening Customer Relationships, capturing cross-sales
Right-sizing the Banks cost base	Enhancing Enterprise Risk Management	Rebuilding trust with stakeholders

Corporate & Institutional Banking

UAB's Corporate and Institutional Banking team went through a complete overhaul in 2015. A major part of 2015 was focussed on de-risking and de-leveraging the portfolio in line with the changing economic scenario in the region. This resulted in the right-sizing and right risk profiling of our corporate banking portfolio, giving us strong fundamentals for sustainable growth in 2016 and beyond.

In Q4 2015 the Bank made a strategic decision to maximize synergies between its key frontline units by creating the post of "Chief Business Officer" (CBO). The CBO will be responsible for delivering the overall revenue and balance sheet plans of the Bank.

To optimize both recovery as well as service to credit worthy clients, a "Corporate & Retail Remedial Unit" was created. This unit has been entrusted with managing the stressed asset portfolios of the Bank, so as to ensure maximum recoveries and conversion to performing assets.

The Bank plans to achieve its growth aspirations through a comprehensive relationship-based approach, which will include targeting the customers' working capital needs as well as their employee proposition.

With a mission to deliver a comprehensive end-to-end product suite, the Bank has undertaken key initiatives, from strengething its Corporate Banking team by acquiring talented and well-versed senior team members, to solidifying its transaction banking proposition by focusing on delivering innovative products and services, enhancing technology channels, re-engineering processes to improve Turnaround Times and minimize operational risks.

UAB intends to become a true value partner in the sphere of Trade & Supply Chain Management, with dedicated product specialists assisting clients with customized trade finance solutions and working capital supply chain finance products. These specialists will work very closely with the Financial Institutions team to capture and mitigate the risks around export flows.

Additionally, at the heart of our value offering, we intend to target the employee proposition, which will enable us to further anchor the relationship with our clients.

The revised Corporate and Institutional Banking strategy will also look to address the necessary diversification across sectors, products and funding. Through a select corporate-finance offering, UAB will engage with regional partner banks to provide meaningful solutions for our clients' financing needs.

To facilitate our clients' risk management on exposure to currency and interest rate volatility, the Corporate Banking team will proactively provide hedging solutions through a dedicated Treasury Marketing Unit embedded within the business in Q4 2015.

Retail Banking

In response to a challenging economic year, Retail Banking proactively focused on four key areas:

De-risking and delevering its portfolio: to align the business to the weakening economic indicators, a clear strategy on de-risking the portfolio was developed and implemented during the second half of 2015 to focus on deleveraging retaill's self-employed portfolio.

Distinguishing our propositions through digital platforms: we invested heavily in improving our digital platforms and are aiming to launch a cutting edge online and mobile banking platform in H2 2016.

Credit Bureau: UAB started diligently complying to underwriting of all retail products. Following the measures and practices of the Credit Bureau improves our customer evaluation process, which will subsequently deliver long-term benefits.

Products and Services: UAB remained focused on our customer-centric approach by understanding our customers' lifestyles and responding to their financial requirements. UAB's comprehensive and competitive financial solutions include our award winning loyalty program "UAB Rewards", which was recognized again by the Banker Middle East as the 'Best Loyalty Program in the UAE' in 2015.

Going forward our focus will be on supporting Corporate and Institutional Banking thorough the "UAB@Work" strategy, while utilising our full-service branch network and continuing to improve our digital platform to enhace customer experience and build stronger relationships with them.

Islamic Banking

UAB offers a comprehensive suite of Shari'ah-compliant products and services to its clients across Corporate, Retail and Treasury, with the same level of quality and flexibility our customers expect.

In 2015, UAB Islamic Banking re-appointed the Shari'ah Supervisory Board to provide guidance and ensure that the business is compliant with the rules, regulations and principles of Shari'ah and the Central Bank of the UAE (which also regulates Islamic Banking).

The function will be fully aligned with the Bank's overarching strategy as it develops services to cater to its customers needs, improves the quality of its assets and enhances customer experience.

Treasury & Capital Markets

The Treasury and Capital Markets function supports the Bank in strengthening its relationship with corporate and high net worth clients, through a wide, customised range of products and services addressing their specific needs. Subsequently, the function was a main contributor to the Bank's income in 2015.

Treasury & Capital Market maintains dedicated Money Market, FX and Derivative trading desks to support the Bank's overall revenue generating capabilities.

As part of Bank's Asset and Liability management function, Treasury and Capital Markets provides a stable and diversified source of funding for the Bank. This effective funding management has resulted in controlling our cost of funds, strengthening the Bank's funding and liquidity profiles and improving the Loans to Deposits Ratio to 93% as of 31st December 2015.

The Bank's Investment Portfolio increased to AED2.56 billion, adding overall interest income, with the portfolio comprising mainly of highly liquid fixed income securities, with a mix of government, semi-government, corporate bonds and Sukuk from across the UAE and GCC countries.

In line with the Bank's future strategy, the unit plans to further increase and diversify its investment activities and continue supporting the needs of other business functions.

Sound Corporate Governance plays a fundamental role in the culture and business practices of UAB. The Bank's Corporate Governance framework relates to the way the business and activities of the Bank are directed and managed taking into account all stakeholders and the role of the Bank in the community.

UAB's Corporate Governance Framework

The Governance framework ensures adequate Board oversight over the risks inherent to our business. It focuses on the separation of the Board of Directors, the Executive Management's duties and responsibilities, the effectiveness of the Board and Management Committees, role of the external and internal auditors and the transparency accuracy and timely disclosure of information. In addition it aids cooperation with supervisory and regulatory authorities to ensure full compliance with applicable regulations and best practices.

UAB complies with each of the Central Bank, Securities and Commodities Authority and Abu Dhabi Securities Exchange regulatory requirements continuously looking to adopt industry best practices.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws and are available on the Investor Relations section on our website (www.uab.ae).

In 2015 the Board conducted an independent review of its Corporate Governance framework through an independent consultant who issued an assessment report and presented directly to the Board. The Board has accordingly developed an implementation plan to further enhance its corporate governance framework in 2016.

Transparency and Disclosure

As part of our efforts to continuously enhance disclosures and transparency, the delivery of accurate and timely information to our stakeholders represents a key priority of the Bank. Information is distributed through a number of channels including media, press releases and other various avenues.

In addition, a dedicated Investor Relations section is available on the Bank's website (www.uab.ae) through which financial and non-financial reports are cascaded.

Financial reports include published annual reports and financial results in both English and Arabic. Other important documents to shareholders such as the Memorandum and Articles of Association, shareholder structure, share price performance and analysts' reports are also available on the website.

BOARD OF DIRECTORS

Role of the Board of Directors

The Board of Directors is empowered, under the Bank's Articles of Association, with the widest powers necessary to carry out the activities and functions required to fulfill the objectives of the Bank. The Board responsibilities include establishing the Bank's strategy and ensuring that the Bank manages risk effectively through approving and monitoring the Bank's risk appetite. Adopting the Bank's Corporate Governance framework falls within the responsibilities of the Board to help ensure the implementation of solid internal controls and disclosures, the establishment of adequate policies and procedures necessary for the Bank's sound operations and compliance with applicable regulatory and statutory requirements at all times.

The Board has also approved the Terms of Reference of the Board of Directors and all Board Committees, which set out their respective process, duties and responsibilities.

Role of the Chairman

The Chairman is elected by the Board in accordance with the Bank's Articles of Association. The position of Chairman of the Board and Bank's Chief Executive Officer is not held by the same individual.

The Chairman provides leadership for all aspects of the Board's activities and ensures that the Board meets its commitments to comply with applicable laws and regulations and that all resolutions adopted by the Board are effectively implemented.

The Chairman's responsibilities include:

- Providing leadership to the Board, setting its agenda, chairing its meetings and ensuring the effective implementation of Board's decisions;
- Ensuring the Board has within its membership the relevant knowledge of the banking industry as well as with financial and accounting expertise;
- Facilitating the effective contribution of Directors and the building of constructive relations between Directors;
- Promoting the highest standards of Corporate Governance and ensuring the Board discharges its duties and complies with relevant laws and regulatory requirements;
- Ensuring effective communications with shareholders;
- Arranging regular evaluations of the performance of the Board; and
- Building an effective Board and planning succession to all Board appointments.

Directors Obligations and Duties

Board Members commit to the following obligations in carrying out their duties as Directors of the Board, in accordance with the highest Corporate Governance standards:

- Having the necessary skills, qualifications and knowledge of the Bank's affairs and business;
- Acting honestly and in good faith with a view to protecting the best commercial interests of the Bank;
- Observing confidentiality, conflict of interest and transparency requirements when assuming their responsibilities as Directors;
- Acting in accordance with the obligations stipulated under the Articles of Association and all applicable laws and regulations;
- Not being convicted of any crime or felony or a crime involving moral turpitude;
- Disclosing any direct or indirect interests that they may have in connection with the Bank and which could conflict with the proper performance of their duties; and
- Attending regularly and participating effectively in Board meetings and general meetings of the shareholders.

Board Composition and Nomination

The Board is composed of 9 non-executive board members. The members were elected at the Annual General Assembly in March 2014, beginning their respective three-year term of office effective January 1, 2014. Members are eligible for re-election.

4 members represent The Commercial Bank, being the major shareholder, 2 members represent the founders of the Bank with the remaining representing the private sector and minority shareholders.

The Board collectively possesses professional knowledge, business expertise, industry knowledge and financial awareness to carry out its oversight responsibilities.

All Board members are in regular attendance of the meetings.

BOARD ACTIVITIES IN 2015

The Board of Directors met 9 times in 2015 and received information in between meetings on regular basis from the Board and Management Committees in relation to the Bank's business developments.

2015 Board Meetings Calendar:

21st January 2015	Board of Directors meeting to approve the 2014 end of year results.
3rd March 2015	Board of Directors meeting to approve miscellaneous items on the agenda.
3rd March 2015	The Board held a constituent meeting after the election of the Board by the AGA held on 3 March 2015.
27th April 2015	Board meeting to approve Q1 2015 financial results and the YTD financial performance.
15th June 2015	Board of Directors meeting to approve miscellaneous items on the agenda.
14th July 2015	Board meeting to approve Q2 2015 financial results and the YTD financial performance.
13th October 2015	Board meeting to approve miscellaneous items on the agenda.
27th October 2015	Board meeting to approve Q3 2015 financial results and the YTD financial performance.
8th December 2015	Board of Directors meeting to review of YTD financial and business performance and 2016 budget approval.

BOARD MEMBER	BOD	EXCOB	BAC	BCC	BRC
Sheikh Faisal Bin Sultan Bin Salem Al Qassimi	C				
Mr. Omar Hussain Alfardan	VC	C			
Sheikh Abdullah Bin Ali Bin Jabor Al Thani	M				C
Sheikh Mohammed Bin Faisal Al Qassimi	M	M		M	
Mr. Andrew C. Stevens	M	M		M	
Mr. Mohamed Abdulbaki Mohamed	M		C	M	M
Mr. Ahmed Mohamad Bakheet Khalfan	M		M	C	M
Mr. Nicholas Coleman	M		M	M	M*
Ms. Najla Al Midfa	M	M			
Number of Meetings in 2015	9	11	11	16	9

C: Chairman
M: Member
BOD: Board of Directors
EXCOB: Board Executive Committee
BAC: Board Audit Committee
BCC: Board Credit Committee
BRC: Board Risk Committee

BOARD COMMITTEES

The Board of Directors established Board Committees to assist the Board in carrying out its duties and obligations and offer a more detailed review of important areas of business and control.

BOARD EXECUTIVE COMMITTEE ("EXCOB")

The Executive Committee acts on behalf of the Board, or any of its sub-committees when they are not in session, except for those powers and actions that are restricted to the Board based on legal provisions or the Bank's Articles of Association.

The Executive Committee is responsible for the development and overseeing of the Bank's long-term strategy and its implementation, review and recommendation of the Bank's annual budgets and business plans, review of the Bank's financial and operating performance, and handling of other matters including (but without limitation) remuneration, compensation, and Human Resources.

EXCOB meets at least 4 times a year. In 2015, the committee held 11 meetings.

BOARD AUDIT COMMITTEE ("BAC")

The Audit Committee monitors the integrity of the Bank's financial statements, the soundness of internal controls, the compliance with legal and regulatory requirements, the independence and qualifications of the external auditor and the performance, output and reports submitted by the internal audit function. The internal audit function has a direct reporting line to the BAC.

BAC meets at least 4 times a year. In 2015, the committee held 11 meetings.

BOARD CREDIT COMMITTEE ("BCC")

The Credit Committee is responsible for evaluating and granting counter party credit facilities and approving the Bank's investment activities within authorized limits.

BCC meeets on an ad hoc basis. In 2015, the committee held 16 meetings.

BOARD RISK COMMITTEE ("BRC")

The Risk Committee monitors and is responsible for all aspects of enterprise risk management including, (but without limitation to) credit risk, market risk, operational risk, legal risk, regulatory risk, liquidity risk, and financial risks. The Committee is responsible for reviewing and approving the policies on all risk issues and maintaining oversight of the Bank's risks through reports received from the General Management Risk Committee.

BRC meets at least 4 times a year. In 2015, the committee held 9 meetings.

Performance Evaluation of Board and Board Committees

BRC reviews, on an annual basis, the performance of the Board against its Terms of Reference and reports accordingly to the Board of Directors. The Board appointed an independent consultant in 2015 to review the Board's governance. The recommendations issued by the consultants in their independent report will be implemented in 2016.

MANAGEMENT COMMITTEES

The Board approved the Terms of Reference of all Management Committees. The Bank has 6 Management Committees that report regularly to the Board, or the relevant Board committee, on their activities.

EXECUTIVE MANAGEMENT COMMITTEE ("EXCOM")

The Executive Management Committee is responsible for recommending strategy, monitoring performance in relation to the business of UAB and ensuring compliance with legal and regulatory requirements and internal policies.

EXCOM meets at least once a month.

GENERAL MANAGEMENT RISK COMMITTEE ("GMRC")

The General Management Risk Committee is the highest ruling authority at management level on all aspects of enterprise risk management including: credit risk; market risk,; operational risk; legal risk; regulatory risk; liquidity risk; financial risk; and all audit matters of the Bank.

GMRC provides recommendations on all risk and investment policy and portfolio issues to the BRC and other Board Committees as appropriate.

GMRC meets at least 4 times a year.

GENERAL MANAGEMENT CREDIT COMMITTEE ("GMCC")

GMCC is the highest management level authority on all counterparty risk exposures, credit product programs and underwriting exposures on syndications and securities transactions.

GMCC meets as and when required.

BUSINESS TECHNOLOGY INVESTMENT COMMITTEE ("BTIC")

The mandate of the committee is to align technology initiatives with UAB business strategy, by setting the strategic technology direction and monitoring progress of the efficient and effective operations of the Bank's systems.

BTIC meets at least 4 times a year.

ASSET AND LIABILITY COMMITTEE ("ALCO")

ALCO is a decision making body for developing policies relating to asset, liability and market risk management (i.e. balance sheet structure, funding, pricing, hedging, investment, and limits).

ALCO meets at least six times a year.

SPECIAL ASSETS COMMITTEE ("SAC")

SAC is the highest management level authority on Retail, Corporate and SME provisions. The authority of the SAC is derived from the Board.

SAC meets on a monthly basis.

Performance Evaluation of Management Committees

The Corporate Governance reviews on an annual basis the performance of all Management Committees against their terms of reference and reports accordingly to BRC.

RISK MANAGEMENT

UAB regards effective risk management as a key element to its sustainable performance and success.

The role of risk management is to ensure that the Bank's risk-related decisions are consistent with the Bank's strategy, are in line with its risk appetite and are in compliance with the standards set by regulators. UAB's enterprise-wide risk management framework provides the basis for achieving these goals.

Effective risk management is fundamental to the success of the Bank and is recognized as a key element in UAB's overall approach to achieving its goals.

The risk management framework is predicated on the Three Lines of Defense model. Within this model, Business units (first line) originate and manage risks, while the risk management group and other control functions (second line) provide independent oversight and objective challenge to the first line of defense, as well as monitoring and controlling of risk. Internal audit department (the third line) provides assurance that policies, procedures and controls are achieved by the other defenses.

The Bank has an established risk governance structure with an active and engaged Board of Directors supported by an experienced senior management team and risk management that is independent of the business lines. Decision-making is exercised through a number of Board and Executive Management Committees.

The Board of Directors approves key risk policies, limits and risk appetite statement, and ensures, either directly or through the committees, that decision-making is aligned with the Bank's strategies and risk appetite. moreover, detailed reports are submitted to the Board periodically on the Bank's risk profile and portfolio.

The Executive Management Team, and in particular the Chief Executive Officer (CEO) and the Chief Risk Officer (CRO), are responsible for risk management under the oversight of the Board. The CRO heads the risk management group and also has direct access to the Board.

The risk management group, under the CRO, consists of specialized teams for managing credit, market and operational risks. Risk management also includes the control and reporting functions of risk analytics, credit administration and monitoring. The allied functions of legal and compliance are also part of the risk management group.

The Bank continuously strengthens its risk management practices, policies and procedures and invests in technology and other tools to upgrade its overall capabilities, which are fundamental to achieving its business strategy.

Operational Risk

The Bank defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational Risk is relevant to every aspect of the Bank's business and covers a wide spectrum of issues. Losses arising through fraud, unauthorized activities, errors, omission, inefficiency, and system failure or from external events all fall within its remit.

In order to mitigate such operational losses the Bank has in place:

- Corporate Governance structures, ensuring detailed policies and procedures are regularly updated to enhance the internal control environment;
- Risk Self-Assessment processes with Key Indicators providing early warning signs to enable management to take appropriate and timely action; and
- Operational Risk training to develop and enhance employees' awareness and improve the control culture.

The Bank has a well-defined operational risk framework which includes the three lines of defense and an independent Operational Risk team reporting directly to the Chief Risk Officer (CRO), with oversight of Operational Risk provided by the Board Risk Committee.

COMPLIANCE

Compliance Risk is the risk of legal or regulatory sanctions, fines and losses associated with damage to the Bank's reputation as a result of its failure to comply with applicable laws, regulations or prescribed practices.

The primary responsibility of the Compliance function is to assist senior management in effectively mitigating and managing the compliance risks faced by the Bank. The Compliance function provides assurance to the Executive Team and Board that the expectations of its regulator, the Central Bank of the UAE, are met and that the risk of the Bank being used to facilitate financial crime is minimized.

The Compliance function operates independently of the business and submits periodic reports to the Executive Team and the Board of Directors. One of its key tasks is to ensure all relevant stakeholders are kept informed of the latest regulatory developments with this achieved by maintaining close links with the Central Bank and providing appropriate training and advice to relevant members of the Bank's management and employees.

In order to monitor compliance and anti-money laundering risks, the Bank has set in place the due diligence processes for high-risk accounts and implementation of an integrated compliance and Anti Money Laundering (AML) system which manages name clearance, transaction monitoring and payment monitoring activities. Furthermore, Compliance conducts perpetual screening of the Bank's customer base to ensure no blacklisted individuals / entities hold accounts with the Bank, thus mitigating the reputational risk.

During the year 2015, the Bank increased the number of staff in its Compliance function from 6 to 14 and made significant changes in it's policies and processes. The Bank has and will continue to ensure the Compliance function possesses the required resources, in the form of people, processes and systems, to provide assurance that the expectations of its regulator are satisfied.

LEGAL

The Legal team provides support to the risk management group with its key objective to give advice and guidance on various operational and strategic issues. It acts as the Bank's legal counsel with its priorities being to:

- Advise on effective solutions for current and anticipated material legal and regulatory issues;
- Ensure major corporate actions, transactions, cases and projects are managed in an efficient manner in line with applicable laws and regulations, in order to minimize the Bank's legal and regulatory risks;
- Draft, review and update the Bank's documentation, templates, general terms and conditions; and
- Review all contracts and agreements which the Bank will become party to, including (but not limited to): Global Master Repurchase Agreements; International Swap and Derivative Agreements; Islamic Banking Structures.

INTERNAL AUDIT

The Internal Audit team supports the Bank by providing independent, objective assurance and consulting activity designed to add value to UAB's operations and improve the effectiveness of risk management, control and governance processes.

Independence is an essential element to the effectiveness of the Internal Audit function. Thus, the function reports directly to the Board of Directors, through Board Audit Committee (BAC). This independence is ensured through the direct approval by the BAC of the function's organizational chart, audit charter and policy, annual audit plan, resources, risk assessment methodology and internal audit performance objective.

During 2015, the Internal Audit function re-engineered its approach and processes by establishing specialized audit types. This re-engineering aims at enhancing operational focus, strengthening the business risk culture and utilizing relevant skill sets of employees to support the improvement of the internal controls environment at the Bank. Furthermore, Audit Management system (Teammate) was implemented to enhance the function's efficiency and effectiveness.

Internal Audit has developed a Bank-wide risk assessment for the purpose of annual audit planning covering the high risk areas of the Bank. In addition, Internal Audit plays a pro-active role by performing special review assignments, investigations and providing consultation services to the Board of Directors and Executive Management.

HUMAN RESOURCES

2015 represented another year where UAB's reliance on the quality of its human capital helped support the Bank's overall stability.

Central to UAB's strategy remains its dedication to developing skilled and capable UAE Nationals. Emiratis now comprise 34% of the Bank's workforce, and through initiatives such as UAB's 'Reyadah' UAE Career Development program, the Bank goes beyond merely recruiting talented individuals to creating an environment where aspiring Emiratis receive the required training and support to build a meaningful career, thus contributing to the Bank's ongoing success.

'Reyadah' was launched in 2014 with 15 of the Bank's high potential UAE National employees selected to qualify for a structured 12-month program comprising of technical training, leadership development and focused coaching plans to ensure they develop the necessary skillset to progress into leadership roles in the near future. 10 UAE Nationals graduated from the program successfully in December 2015, and are now equipped to lead in their current positions and future careers.

Recognizing its broader responsibility to contributing to the UAE's economy and development of its human capital, the Bank continues to build on its close relationships with a range of higher education institutions as well as participate in a number of public recruitment events. In addition, UAB is committed to playing a proactive role, supporting Emiratisation initiatives organized by the UAE Central Bank and will continue to provide the necessary assistance to maintain the momentum critical to the success of these initiatives.

In 2015, with the help of one of the region's leading HR consultants, the Bank conducted its annual Employee Engagement Survey to ensure the Bank's leadership team gains a true insight into employee commitment. With an impressive participation rate of 90.5%, UAB recorded a positive response score of 83%, which compares favorably to other GCC Financial Services Institutions. The survey will be conducted annually with the results evaluated by the leadership team with timely execution of any follow-up actions to ensure employees remain engaged.

SOCIAL RESPONSIBILITY

Social responsibility has and always will be a pillar of UAB's success. Going forward, the Bank sees it as a priority to build upon its initiatives to give back to the community where our people and customers live and work.

UAB takes is committed to serving the wider UAE society. Over recent years, the Bank has prioritized supporting and recruiting citizens with special needs and working closely with organizations that champion their contribution to the community. As part of this initiative the Bank continues to make an annual contribution to the Al Thiqah Club for the Disabled, a remarkable organization which provides invaluable support for people with special needs in the UAE. This support extends with UAB being the exclusive sponsor of its Program Training sessions, which are centered on integrating special-needs citizens into society.

SHAREHOLDERS PROFILE

Meeting of the Shareholders

UAB Shareholders meet at least once a year during the Annual General Meeting ("AGM"), the supreme governance body of the Bank. The Articles of Association provides the statutory framework for the calling and the conduct of the AGM.

The AGM is held during the first four months of the year, to:

- Consider and approve the Board of Directors' Report on the Bank's activities and financial position;
- Consider and approve the external auditor's report on the Bank's balance sheet and financial position;
- Discuss and approve the Bank's balance sheet and income statement;
- Consider and approve the proposal of the Board of Directors regarding the distribution of dividend;
- Approve or abstain from granting a discharge or absolution of the Board Members from their obligation or liabilities;
- Approve or abstain from granting a discharge or absolution of the external auditors from their obligation or liabilities;
- Appoint the external auditors and determine their fees; and
- Elect Board members, as applicable.

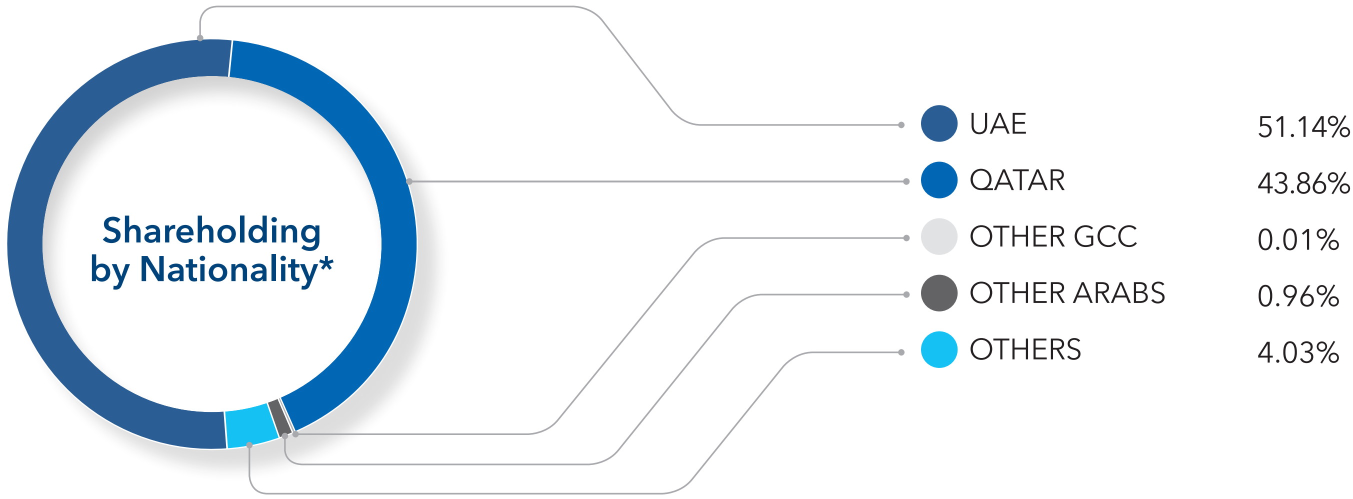
Shareholders may pass a special resolution on items other than those falling under the remit of the AGM, as stipulated under the Articles of Association of the Bank.

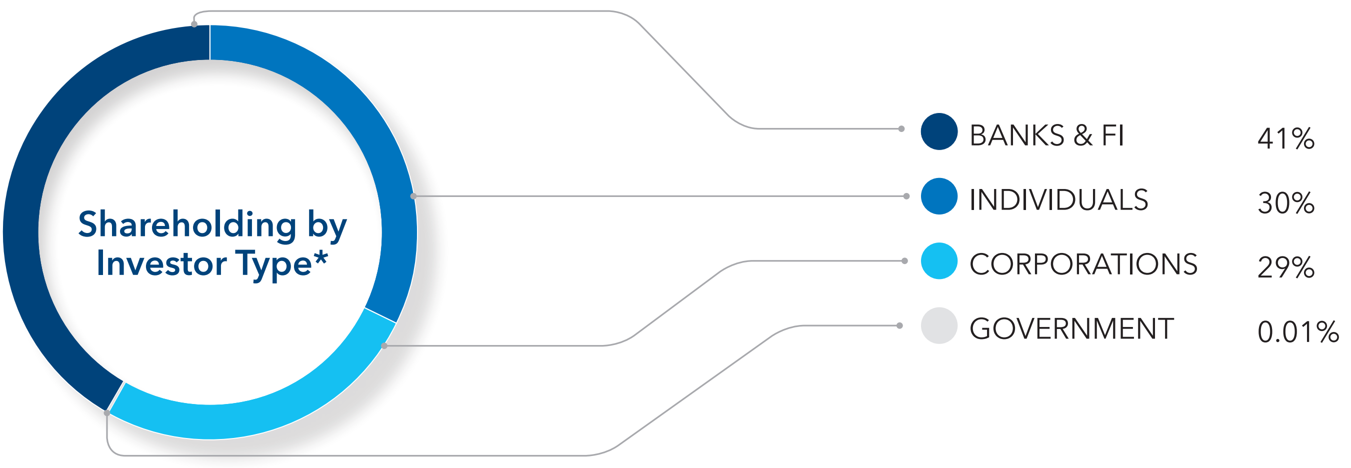
The 2014 AGM took place on March 3, 2015. An Extraordinary General Assembly was scheduled on April 27, 2015 to approve the amendment of the Articles of Association.

Major Shareholders

List of major Shareholders who owned 5% and above of the share capital as at December 31, 2015:

Commercial Bank	40.00%
Sheikh Faisal Bin Sultan Bin Salem Al Qassimi	8.31%
GIBCA Limited Company	5.64%
Jumaa Al Majed Abdullah Muhairi	5.31%





* Total might not equal 100% due to rounding

On behalf of the Board of Directors of United Arab Bank (UAB), I am privileged to present our Annual Report for the year ended 31 December 2015.

2015 represented a historic milestone as it marked UAB's 40th anniversary. Unfortunately, this was against the backdrop of a slowing economy driven by lower oil prices, deteriorating credit profiles and increase in problem loan formation, specifically in the small and medium-sized company segment. Nevertheless, throughout the Bank's long and illustrious history it has always proved resilient to such challenges and I am confident we will navigate through these current economic conditions, emerging again in a much stronger position, to continue supporting the UAE economy.

Whilst our prudent provisioning approach impacted the full year financial results, with the Bank reporting a net loss of AED 166 million for the twelve months ending 31 December 2015, UAB has demonstrated its strength by maintaining its capital adequacy ratio at 14.7%, comfortably above regulatory requirements, and improving its funding and liquidity profiles.

UAB has taken decisive action to proactively deleverage from its higher risk loan portfolios in order to improve asset quality and to retain a non-performing loan coverage ratio of 124%. This allowed the Bank to create a solid platform from which to move forward in a challenging market. In addition, UAB completed a number of other key restructuring initiatives that included enhancing its risk management framework and culture, strengthening its senior leadership team and rationalizing its cost base to ensure it's aligned to our new streamlined operating model thus capturing real cost savings from 2016 onwards.

With the continued support and assistance of our alliance partner, The Commercial Bank, we will leverage our historical strength of serving the UAE corporate market and maintain our focus on optimal capital utilization, cost management and Balance Sheet efficiencies, to deliver value for our shareholders and customers.

The Board of Directors recommend the following appropriations of profit for the year ended 31 December 2015, subject to the approval of the Central Bank:

	(AED'000)
Opening Balance in Retained Earnings at 1 January	**914,759**
Loss for the year	(166,147)
Transfers from Revaluation Reserve	36
Dividend distributed relating to 2014	(343,758)
Balance available for appropriation	**404,890**
Proposed Appropriation of Profit	
Transfer to Special Reserve	Nil
Transfer to Statutory Reserve	Nil
Directors' Remuneration	Nil
Closing Balance in Retained Earnings at 31 December 2015	**404,890**

After the proposed appropriation of profit, and subject to the General Assembly's approval, total Shareholders' Funds will decrease to AED 2,588 million at 31 December 2015 compared with AED 2,912 million at the end of 2014. The Directors propose no dividend award in 2016.

On behalf of the Board of Directors, whose unwavering commitment and guidance remain invaluable, my sincere appreciation goes to our valued customers and shareholders. To all members of our management team and employees, we greatly value your continued professionalism and dedication. I would like to express our special thanks to the UAE Government for its ongoing support to the banking sector. We also wish to highlight our gratitude to the Central Bank, and all our regulators, for their beneficial support. We look forward to building a more efficient business in 2016 and beyond, delivering sustainable returns within a prudent risk appetite structure.

Faisal Bin Sultan Bin Salem Al Qassimi
Chairman
24 January 2016

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CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

The Shareholders
United Arab Bank P.J.S.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of United Arab Bank P.J.S.C. (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. 2 of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

iii) the Group has maintained proper books of account;

iv) the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;

v) as disclosed in note 12 to the consolidated financial statements, the Group has not purchased any shares during the year ended 31 December 2015;

vi) note 20 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2015 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2015; and

viii) note 27 to the consolidated financial statements discloses the social contributions made during the year.

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

KPMG

KPMG Lower Gulf Limited
Date: 24 January 2016
Muhammad Tariq
Registered Auditor Number: 793
Place: Dubai, United Arab Emirates

UNITED ARAB BANK P.J.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2015

	Notes	2015 AED'000	2014 AED'000
Interest income	4	**1,216,833**	1,233,842
Interest expense	5	**(229,613)**	(224,453)
NET INTEREST INCOME		**987,220**	1,009,389
Net fees and commission income		**103,247**	121,074
Net exchange income arising from dealing in foreign currencies		**75,947**	87,207
Other operating income	6	**46,632**	155,510
TOTAL OPERATING INCOME		**1,213,046**	1,373,180
Provision for credit losses	7	**(887,791)**	(374,075)
NET OPERATING INCOME		**325,255**	999,105
Personnel expenses		**(280,969)**	(252,062)
Depreciation on property and equipment	8	**(31,465)**	(26,508)
Other operating expenses		**(178,968)**	(115,127)
TOTAL OPERATING EXPENSES		**(491,402)**	(393,697)
(LOSS) / PROFIT FOR THE YEAR		**(166,147)**	605,408
(LOSS) / EARNINGS PER SHARE (AED)	9	**(0.12)**	0.43

The attached notes 1 to 27 form part of these consolidated financial statements.
The Independent Auditors' report is set out on pages 38 and 39

UNITED ARAB BANK P.J.S.C.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	**2015 AED'000**	*2014 AED'000*
(Loss) / profit for the year		**(166,147)**	605,408
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Net unrealised loss on available for sale investments	19	**(45,673)**	(15,848)
Available for sale investments – reclassified to statement of income	19	**2,700**	3,602
Reversal of gain on settlement of cash flow hedges	19	**-**	(2,772)
		(42,973)	(15,018)
Total comprehensive income for the year		**(209,120)**	590,390

The attached notes 1 to 27 form part of these consolidated financial statements.
The Independent Auditors' report is set out on pages 38 and 39

UNITED ARAB BANK P.J.S.C.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2015

	Notes	**2015 AED'000**	2014 AED'000
ASSETS			
Cash and balances with UAE Central Bank	10	**3,075,352**	1,810,558
Due from banks	11	**864,386**	1,933,231
Loans and advances	7	**15,671,631**	17,940,903
Investments	12	**2,559,350**	2,486,530
Investment properties	13	**96,000**	110,794
Property and equipment	8	**587,718**	409,115
Other assets	14	**827,186**	1,018,154
TOTAL ASSETS		**23,681,623**	25,709,285
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Due to banks		**1,037,946**	846,914
Customers' deposits	15	**16,775,043**	18,718,297
Medium term borrowings	16	**2,313,549**	2,019,655
Other liabilities	17	**967,130**	1,212,758
TOTAL LIABILITIES		**21,093,668**	22,797,624
SHAREHOLDERS' FUNDS			
Share capital	18	**1,375,033**	1,145,861
Special reserve	18	**412,659**	412,659
Statutory reserve	18	**495,214**	495,214
General reserve	18	**9,311**	9,311
Revaluation reserve	18	**714**	750
Retained earnings		**404,890**	914,759
Cumulative changes in fair values	19	**(109,866)**	(66,893)
TOTAL SHAREHOLDERS' FUNDS		**2,587,955**	2,911,661
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**23,681,623**	25,709,285

The financial statements were approved by the Board of Directors on 24 January 2016 and signed on its behalf by:

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

Samer Tamimi
Acting Chief Executive Officer

The attached notes 1 to 27 form part of these consolidated financial statements.
The Independent Auditors' report is set out on pages 38 and 39

UNITED ARAB BANK P.J.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 AED'000	2014 AED'000
OPERATING ACTIVITIES			
(Loss) / profit for the year		**(166,147)**	605,408
Items not involving cash flow:			
Depreciation	8	**31,465**	26,508
Loss on write off of property and equipment	8	**1,156**	-
Provision for credit losses	7	**887,791**	374,075
Amortisation of premium paid on investments		**14,189**	-
Items considered separately:			
Net gain on sale of investments		**(9,662)**	(42,706)
Fair valuation gain on investment properties	13	**-**	(42,248)
Gain on sale of investment properties	13	**(1,089)**	(4,277)
Changes in operating assets and liabilities:			
Loans and advances		**1,381,481**	(3,029,497)
Due from UAE Central Bank		**228,452**	(385,690)
Due from banks maturing after three months		**(91,807)**	-
Cash margin held by counterparty banks against borrowings and derivative transactions	11	**(20,920)**	(35,881)
Other assets	14	**190,968**	194,582
Due to banks maturing after three months		**519,193**	(567,035)
Customers' deposits	15	**(1,943,254)**	3,683,460
Other liabilities	17	**(249,005)**	(101,988)
Net cash flows from operating activities		**772,811**	674,711
INVESTING ACTIVITIES			
Purchase of property and equipment	8	**(211,224)**	(223,331)
Purchase of investment properties	13	**-**	(2,544)
Purchase of investments		**(2,873,787)**	(6,400,811)
Proceeds from redemption / sale of investments		**2,767,644**	5,588,363
Proceeds from sale of investment properties		**15,883**	12,077
Net cash flows used in investing activities		**(301,484)**	(1,026,246)
FINANCING ACTIVITIES			
Medium term borrowings	16	**293,894**	367,210
Directors' remuneration		**(10,800)**	(10,800)
Cash dividends paid		**(114,586)**	(149,460)
Net cash flows from financing activities		**168,508**	206,950
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**639,835**	(144,585)
Cash and cash equivalents at 1 January		**1,970,311**	2,114,896
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**2,610,146**	1,970,311

Cash and cash equivalents comprise the following statement of financial position amounts with original maturities of three months or less:

	2015	2014
Cash and balances with UAE Central Bank	**2,054,020**	560,774
Due from banks maturing within three months	**707,669**	1,889,241
Due to banks maturing within three months	**(151,543)**	(479,704)
	2,610,146	1,970,311

The attached notes 1 to 27 form part of these consolidated financial statements.
The Independent Auditors' report is set out on pages 38 and 39

UNITED ARAB BANK P.J.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Share capital AED'000	**Special reserve AED'000**	**Statutory reserve AED'000**	**General reserve AED'000**	**Revaluation reserve AED'000**	**Retained earnings AED'000**	**Cumulative changes in fair value AED'000**	**Total AED'000**
At 1 January 2015	**1,145,861**	**412,659**	**495,214**	**9,311**	**750**	**914,759**	**(66,893)**	**2,911,661**
Loss for the year	-	-	-	-	-	**(166,147)**	-	**(166,147)**
Other comprehensive loss for the year	-	-	-	-	-	-	**(42,973)**	**(42,973)**
Total comprehensive loss for the year	-	-	-	-	-	**(166,147)**	**(42,973)**	**(209,120)**
Depreciation transfer for land and buildings	-	-	-	-	**(36)**	**36**	-	-
Scrip dividend (note 18)	**229,172**	-	-	-	-	**(229,172)**	-	-
Cash dividend (note 18)	-	-	-	-	-	**(114,586)**	-	**(114,586)**
At 31 December 2015	**1,375,033**	**412,659**	**495,214**	**9,311**	**714**	**404,890**	**(109,866)**	**2,587,955**

	Share capital AED'000	Special reserve AED'000	Statutory reserve AED'000	General reserve AED'000	Revaluation reserve AED'000	Retained earnings AED'000	Cumulative changes in fair value AED'000	Total AED'000
At 1 January 2014	996,401	352,118	434,673	9,311	3,409	737,494	(51,875)	2,481,531
Profit for the year	-	-	-	-	-	605,408	-	605,408
Other comprehensive income for the year	-	-	-	-	-	-	(15,018)	(15,018)
Total comprehensive income for the year	-	-	-	-	-	605,408	(15,018)	590,390
Depreciation transfer for land and buildings	-	-	-	-	(49)	49	-	-
Sale of investment properties	-	-	-	-	(2,610)	2,610	-	-
Scrip dividend	149,460	-	-	-	-	(149,460)	-	-
Cash dividend	-	-	-	-	-	(149,460)	-	(149,460)
Directors' remuneration	-	-	-	-	-	(10,800)	-	(10,800)
Transfer to special reserve	-	60,541	-	-	-	(60,541)	-	-
Transfer to statutory reserve	-	-	60,541	-	-	(60,541)	-	-
At 31 December 2014	1,145,861	412,659	495,214	9,311	750	914,759	(66,893)	2,911,661

The attached notes 1 to 27 form part of these consolidated financial statements.
The Independent Auditors' report is set out on pages 38 and 39

1 INCORPORATION AND ACTIVITIES

United Arab Bank P.J.S.C. (the "Bank") was incorporated as a public company with limited liability in the Emirate of Sharjah in 1975 by a decree of His Highness The Ruler of Sharjah and has been registered as a public joint stock company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries out the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries out Islamic banking operations through Islamic banking windows at selected branches.

Investment in subsidiary
On 28 November 2011, Al Sadarah Investment Company was formed as an investment company by the Bank. Al Sadarah Investment Company ("the subsidiary") started its operations from 3 May 2012 when the share capital was introduced into the subsidiary. The company is incorporated as a fully owned subsidiary of the Bank and the financial results of the subsidiary are fully consolidated in the Bank's consolidated financial statements for the year ended 31 December 2015. The Bank and its subsidiary are together referred to as the "Group".

The issued and fully paid up capital of the Al Sadarah Investment Company is 100 shares of AED 3,000 each, totalling AED 300,000 (31 December 2014: AED 300,000). The principal activities of the subsidiary are to make financial investments on its own, invest in commercial projects and provide investment advisory services.

2 BASIS OF PREPARATION

Statement of compliance
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws. UAE Federal Law No 2 of 2015 ("UAE Companies Law of 2015") was issued on 1 April 2015 and has come into force on 1 July 2015. Companies are allowed to ensure compliance with the UAE Companies Law of 2015 by 30 June 2016 as per the transitional provisions contained therein. The Bank is currently in the process of implementing all changes required by the UAE Companies Law of 2015.

Basis of measurement
The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivative financial instruments, investments and investment properties. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Functional and presentation currency
The consolidated financial statements have been presented in UAE Dirhams which is the functional currency of the Group and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

Significant management judgements and estimates
The preparation of the consolidated financial statements in conformity with IFRS 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 estimates are revised and in any future periods affected.

Information about significant areas of estimation and uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described below:

2 BASIS OF PREPARATION *(continued)*

Significant management judgements and estimates *(continued)*

Classification of investments
Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading or available for sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, that the Group has the intention and ability to hold these to maturity.

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

All other investments are classified as available for sale.

Going concern
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has 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 Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more details in Note 25.

Impairment of investments
The Group treats held to maturity and available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that the loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated. The determination of what is "significant" or "prolonged" requires considerable judgment. The Group evaluates a number of factors, including the amount of decline and the length of period of the decline, the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities and debt securities. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Impairment losses on loans and advances
The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

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 provisions 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 account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratio etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in Note 7.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Group. A number of new standards and amendments became effective for the year ended 31 December 2015. The application of these revised IFRSs has not had a material impact on the amounts reported for the current and prior period.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2015 (collectively referred to as the "Group"). The following subsidiary has been consolidated within these consolidated financial statements:

Name	*Legal Status*	*Beneficial ownership*	*Country of incorporation*	*Principal activities*
Al Sadarah Investment Company	Limited Liability company	100%	Sharjah, UAE	Investments and advisory services

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee.

Subsidiaries are fully consolidated from the date of acquisition or establishment, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Where necessary, the accounting policies of subsidiaries are aligned to ensure consistency with the policies adopted by the Group. All intra-group balances, transactions, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity, if any;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the consolidated statement of income; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to consolidated statement of income or retained earnings, as appropriate.

Revenue recognition
For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Fees earned for provision of services over a period of time are accrued over that period. These fees include commission income, custody and other management advisory fees.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*
Other fee income and expense are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

When the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap.

Cash and cash equivalents
Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted current accounts with the Central Bank and amounts due from (to) banks on demand or with an original maturity of three months or less.

Due from banks
After initial measurement, amounts due from banks are subsequently measured at amortised cost using the effective interest rate less allowance for impairment, if any.

Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument for another entity.

Classification
The Group classifies its financial assets at initial recognition in the following categories:

- Financial assets at fair value through profit or loss: This category has two sub-categories (a) financial assets held for trading and (b) those designated to be fair valued through profit or loss ("FVPL") at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

- Loans and advances: This category comprises of non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the Group provides money directly to the borrower with no intention of trading the receivable.

- Held-to-maturity: Investments classified as held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention of, and the ability to, hold to maturity.

- Available-for-sale: Investments classified as Available-for-sale are those non-derivative financial assets that are designated as available-for-sale or not classified as (a) loans and advances; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss.

Recognition and initial measurement
The Group initially recognises loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group 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.

De-recognition
Financial assets are derecognised when the contractual rights to receive cash flows from the asset expire or where the Group has transferred substantially all the risks and rewards of ownership. A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Subsequent measurement

Subsequent to initial recognition, all financial instruments to be fair valued through profit or loss and available-for-sale assets are measured at fair value, except any instrument that does not have a reliably measurable fair value, in which case financial instruments are measured as set out in the fair value measurement principles below.

All held-to-maturity financial instruments and loans and advances are measured at amortised cost using the effective interest method less impairment losses, if any.

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss are included in the consolidated statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in equity through other comprehensive income, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income. In cases where available-for-sale investments with a fixed maturity are reclassified to held-to-maturity investments, the fair value gains or losses up until the date of the reclassification are held in equity and amortised to the consolidated statement of income over the remaining life of the held-to-maturity investments using the effective interest rate method.

Amortised cost measurement principles

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal re-payments, 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. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group 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.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all 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 Group 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 recognised in 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.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*
Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group 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.

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

Investment properties
Investment properties including investment properties under construction are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise. Fair values are evaluated, at least annually, by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

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

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

Property and equipment
Property and equipment are stated at cost excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value. Freehold land is not depreciated as it is deemed to have an indefinite life.

In case of valuation method being applied, revaluation of land and buildings is carried out on an open market basis for existing use. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings. Fair value is determined from market based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are made with regularity to ensure that their carrying value does not differ materially from their fair value at the statement of financial position date.

Depreciation is calculated on a straight line basis over the estimated useful lives of property and equipment as follows:

	2015
Buildings	Over 25 years
Motor Vehicles	Over 5 years
Furniture, fixtures and equipment	Over 3 to 8 years
Leasehold Improvements	Over 12 years

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment *(continued)*
The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the consolidated statement of income in the year the asset is derecognised.

Employees' end of service benefits
With respect to its national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under UAE Labour Laws.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and can be reliably measured. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

Financial guarantees
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, with premium received included in 'Other liabilities'. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in 'Provision for credit losses'. The premium received is recognised in the consolidated statement of income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

Leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Derivatives
The Group enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in foreign exchange, interest rate and capital markets. In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to their initial recognition, derivative financial instruments are stated at fair values. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position.

Changes in the fair values of derivatives held for trading or to offset other trading positions are included in other operating income (expenses) in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivatives *(continued)*

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is / are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Changes in the fair value of derivatives that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk are included in other operating income / (expenses) along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Changes in the fair value of derivatives that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in other comprehensive income as "cumulative changes in fair values," and the ineffective portion is recognised in the consolidated statement of income. The gains or losses on cash flow hedges recognised initially in other comprehensive income are transferred to the consolidated statement of income in the period in which the hedged transaction impacts the income. Where the hedged transaction results in the recognition of an asset or a liability, the associated gain or loss that had been initially recognised in other comprehensive income is included in the initial measurement of the cost of the related asset or liability.

Changes in fair value of derivatives or non-derivatives that are designated and qualify, as net investment hedges and that prove to be highly effective in relation to the hedged risk are accounted for in a way similar to cash flow hedges.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Upon such discontinuance:

- in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the consolidated statement of income over the remaining term to maturity;

- in the case of cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained therein as "cumulative changes in fair value" until the forecasted transaction occurs. When such a transaction occurs, the gain or loss retained in cumulative changes in fair values is recognised in the consolidated statement of income or included in the initial measurement of the cost of the related asset or liability, as appropriate. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in cumulative changes in fair values is transferred to the consolidated statement of income.

Certain derivative transactions, while providing effective economic hedges under the Group's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other operating income (expenses).

Derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of income. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment and uncollectibility of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower, or a group of borrowers, is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to ‘Provision for credit losses'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (“EIR”). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment and uncollectibility of financial assets *(continued)*
(i) Financial assets carried at amortised cost (continued)
See Note 7 for details of impairment losses on financial assets carried at amortised cost and an analysis of the impairment allowance on loans and advances.

(ii) Available-for-sale financial investments
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, applying the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

(iii) Renegotiated loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash-Generating Unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Trade and settlement date accounting
All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these financial statements.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Foreign currencies
Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at mid-market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the consolidated statement of income.

Segment reporting
The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Others.

Dividends on ordinary shares
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

New standards and interpretations not yet adopted
A number of new standards and interpretations are not yet effective for the year ended 31 December 2015 and have not been early adopted in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below.

IFRS No.	Title	Effective for annual period beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2017

Management are currently assessing the impact of these standards and interpretations in the consolidated financial statements.

4 INTEREST INCOME

	2015 AED'000	2014 AED'000
Interest on loans and advances to customers	**1,108,150**	1,129,472
Interest on money market and inter bank transactions	**13,478**	17,501
Interest on investments	**95,205**	86,869
	1,216,833	1,233,842

5 INTEREST EXPENSE

	2015 AED'000	2014 AED'000
Interest on customer deposits	**160,246**	160,060
Interest on inter bank transactions	**69,367**	64,393
	229,613	224,453

6 OTHER OPERATING INCOME

	2015 AED'000	2014 AED'000
Charges recovered from customers	**29,702**	29,903
Income from collections	**5,850**	5,868
Others	**11,080**	119,739
	46,632	155,510

7 LOANS AND ADVANCES

	2015 AED'000	2014 AED'000
The composition of the loans and advances portfolio is as follows:		
(a) By type:		
Overdrafts	**1,548,208**	1,710,574
Loans (medium and short term)*	**12,286,125**	12,281,060
Loans against trust receipts	**1,640,225**	3,021,368
Bills discounted	**763,734**	1,126,288
Other cash advances	**95,681**	103,507
Bills drawn under letters of credit	**156,683**	223,637
Gross amount of loans and advances	**16,490,656**	18,466,434
Less: Provision for impairment on loans and advances	**(786,480)**	(500,843)
Interest in suspense	**(32,545)**	(24,688)
Net loans and advances	**15,671,631**	17,940,903

* Includes retail loans of AED 4,851,639,000 (2014: AED 5,031,448,000)

7 LOANS AND ADVANCES *(continued)*

	2015 AED'000	2014 AED'000
(b) By economic sector:		
Government and public sector	**693,431**	501,730
Trade	**2,887,297**	3,924,878
Personal loans (retail and business)	**6,682,272**	7,745,709
Manufacturing	**2,194,723**	2,468,254
Construction	**783,641**	686,943
Services	**1,390,704**	1,386,856
Financial institutions	**1,374,422**	1,248,555
Transport and communication	**481,895**	485,460
Agriculture	**-**	9,019
Others	**2,271**	9,030
Gross amount of loans and advances	**16,490,656**	18,466,434

Loans and advances are stated net of interest in suspense and provision for impairment. The movements for interest in suspense and provisions are as follows:

	2015		2014	
	Interest in suspense AED'000	Impairment provisions AED'000	Interest in suspense AED'000	Impairment provisions AED'000
Balance at 1 January	**24,688**	**500,843**	24,133	263,802
Suspended / provided during the year	**58,430**	**932,649**	20,123	388,009
Released during the year	**(2,212)**	**(30,000)**	(6,948)	-
	56,218	**902,649**	13,175	388,009
Amounts written off during the year	**(48,361)**	**(617,012)**	(12,620)	(150,968)
Balance at 31 December	**32,545**	**786,480**	24,688	500,843

At 31 December 2015, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance and on which interest is not being accrued or where interest is suspended amounted to AED 661,150,000 (2014: AED 472,866,000).

Provision for credit losses recognised in the consolidated statement of income is as follows:

	2015 AED'000	2014 AED'000
Net impairment of loans and advances	**902,649**	388,009
Recovery on bad debt written off	**(14,858)**	(13,934)
Provision for credit losses	**887,791**	374,075

7 LOANS AND ADVANCES *(continued)*

Sector wise analysis of impaired loans and advances and related provisions is as follows:

	2015		2014	
	Gross exposure AED'000	**Specific provision and interest in suspense AED'000**	Gross exposure AED'000	Specific provision and interest in suspense AED'000
By economic sector				
Trade	**292,405**	**217,032**	243,272	180,629
Personal loans (retail and business)	**208,692**	**71,803**	109,164	45,611
Manufacturing	**61,865**	**41,740**	2,236	2,236
Construction	**85,338**	**84,609**	79,349	12,418
Services	**10,713**	**6,637**	38,845	18,131
Transport and communication	**2,137**	**570**	-	-
Total	**661,150**	**422,391**	472,866	259,025

The fair value of collateral that the Group holds relating to loans to corporate and retail customers individually determined to be impaired at 31 December 2015 amounts to AED 166,956,000 (2014: AED 72,809,000). The collateral consists of cash, securities, letters of guarantee and properties.

Collateral repossessed
During the year, the Group did not repossess any material amounts of collateral.

8 PROPERTY AND EQUIPMENT

	Freehold land and buildings AED'000	**Motor vehicles, leasehold improvements, furniture, fixtures and equipment AED'000**	**Capital work-in-progress AED'000**	**Total AED'000**
Cost or valuation:				
At 1 January 2015	**281,826**	**217,046**	**14,443**	**513,315**
Additions	**154,204**	**17,756**	**39,264**	**211,224**
Transfers	**-**	**9,113**	**(9,113)**	**-**
Disposals	**-**	**(2,327)**	**-**	**(2,327)**
At 31 December 2015	**436,030**	**241,588**	**44,594**	**722,212**
Depreciation:				
At 1 January 2015	**5,253**	**98,947**	**-**	**104,200**
Charge for the year	**3,866**	**27,599**	**-**	**31,465**
Transfer	**-**	**-**	**-**	**-**
Disposals	**-**	**(1,171)**	**-**	**(1,171)**
At 31 December 2015	**9,119**	**125,375**	**-**	**134,494**
Net Carrying Value:				
At 31 December 2015	**426,911**	**116,213**	**44,594**	**587,718**

8 PROPERTY AND EQUIPMENT *(continued)*

	Freehold land and buildings AED'000	Motor vehicles, leasehold improvements, furniture, fixtures and equipment AED'000	Capital work-in-progress AED'000	Total AED'000
Cost or valuation:				
At 1 January 2014	96,342	188,572	5,249	290,163
Additions	190,989	15,262	17,080	223,331
Transfers	(5,505)	13,391	(7,886)	-
Disposals	-	(179)	-	(179)
At 31 December 2014	281,826	217,046	14,443	513,315
Depreciation:				
At 1 January 2014	1,576	76,295	-	77,871
Charge for the year	3,899	22,609	-	26,508
Transfer	(222)	222	-	-
Disposals	-	(179)	-	(179)
At 31 December 2014	5,253	98,947	-	104,200
Net Carrying Value:				
At 31 December 2014	276,573	118,099	14,443	409,115

The cost of freehold land included above is AED 338,368,000 (2014: AED 189,403,000).

During 2015, additions to capital work in progress relate to expenditure incurred in connection with the purchase of leasehold improvements, furniture, fixtures and equipment amounting to AED 39,264,000 (2014: AED 17,080,000). Upon completion of associated projects, AED 9,113,000 (2014: AED 7,886,000) was transferred to 'motor vehicles, leasehold improvements, furniture, fixtures and equipment'.

9 EARNINGS PER SHARE

Basic earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	2015	*2014*
Net (loss) / profit for the year net of directors' remuneration of AED Nil (2014: AED 10,800,000)	**(AED 166,147,000)**	AED 594,608,000
Weighted average number of ordinary shares: Ordinary shares of AED 1 each at the beginning of the year	**1,145,861,472**	996,401,280
Effect of scrip dividend of AED 0.15 per share of AED 1 each issued during 2014	**-**	149,460,192
Effect of scrip dividend of AED 0.20 per share of AED 1 each issued during 2015	**229,172,294**	229,172,294
Weighted average number of shares of AED 1 each outstanding during the year	**1,375,033,766**	1,375,033,766
Basic earnings per share (AED)	**(0.12)**	0.43

Weighted average number of shares outstanding for the year has been adjusted to include the effect of a scrip dividend issued during 2014 and 2015 (refer Note 18).

The figures for diluted earnings per share are the same as basic earnings per share as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

10 CASH AND BALANCES WITH UAE CENTRAL BANK

	2015 AED'000	*2014 AED'000*
Cash on hand	**138,719**	124,190
Balances with UAE Central Bank:		
Clearing accounts	**1,115,301**	436,584
Central Bank Certificate of Deposits	**800,000**	-
Reserve requirements	**1,021,332**	1,249,784
	3,075,352	1,810,558

The reserve requirements, kept with the UAE Central Bank in AED and USD, are not available for use in the Group's day to day operations and cannot be withdrawn without its approval. However, the Central Bank in its Circular 4310/2008 dated 24 September 2008, has temporarily permitted banks to overdraw their current accounts (a) up to the amount of reserves at interest of 3% above the prevailing Central Bank Repo rate; and (b) in excess of reserves at interest of 5% above the prevailing Central Bank Repo rate. The level of reserve required changes every month in accordance with the UAE Central Bank directives.

11 DUE FROM BANKS

Due from banks includes AED 554,091,000 (2014: AED 1,374,681,000) placed with foreign banks outside the UAE. AED 64,910,000 (2014: AED 43,990,000) is held as margin for derivative transactions.

12 INVESTMENTS

	2015			2014		
	Quoted AED'000	**Unquoted AED'000**	**Total AED'000**	Quoted AED'000	Unquoted AED'000	Total AED'000
Debt:						
Held for trading						
Local	**-**	**-**	**-**	33,783	-	33,783
	-	**-**	**-**	33,783	-	33,783
Available for sale						
Local	**2,253,806**	**-**	**2,253,806**	2,321,684	-	2,321,684
Overseas	**295,854**	**-**	**295,854**	118,654	-	118,654
	2,549,660	**-**	**2,549,660**	2,440,338	-	2,440,338
Total debt securities	**2,549,660**	**-**	**2,549,660**	2,474,121	-	2,474,121
Equity:						
Available for sale						
Overseas	**9,614**	**76**	**9,690**	12,333	76	12,409
Total equities	**9,614**	**76**	**9,690**	12,333	76	12,409
Total investments	**2,559,274**	**76**	**2,559,350**	2,486,454	76	2,486,530

Included in the above are investment securities amounting to AED 682,613,000 (2014: AED 445,000,000) held under repurchase agreement with the lenders.

The Group has not purchased or invested in shares of companies in 2015 (2014: AED Nil)

13 INVESTMENT PROPERTIES

Investment properties include land and buildings in the UAE, which have been acquired or transferred from property and equipment either for development in future or for undetermined future use. During 2015, the Group did not acquire any new investment properties (31 December 2014: AED 2,544,000). The Group has obtained fair values for these properties at 31 December 2015 based on open market valuations carried out by independent valuers. Net gain in fair value for the year ended 31 December 2015 was AED Nil (31 December 2014: AED 42,248,000). During the year ended 31 December 2015, the Group disposed of two investment properties with a combined value of AED 14,794,000 (31 December 2014: one property valued at AED 7,800,000) resulting in a combined net gain on sale of AED 1,089,000 (31 December 2014: AED 4,277,000) which has been included in the consolidated statement of income.

14 OTHER ASSETS

	2015 AED'000	2014 AED'000
Interest receivable	**91,850**	76,989
Positive fair value of derivatives (Note 21)	**29,343**	37,241
Acceptances	**639,742**	808,630
Prepayments and other assets	**66,251**	95,294
	827,186	1,018,154

15 CUSTOMERS' DEPOSITS

	2015 AED'000	2014 AED'000
Term and call deposits	**11,548,820**	10,230,149
Current accounts	**4,701,183**	7,880,146
Saving accounts	**525,040**	608,002
	16,775,043	18,718,297

16 MEDIUM TERM BORROWINGS

Movement in medium term borrowings during the year is as follows:

	2015 AED'000	2014 AED'000
Balance as at 1 January	**2,019,655**	1,652,445
New issues	**1,028,344**	367,210
Repayments	**(734,450)**	-
Balance as at 31 December	**2,313,549**	2,019,655

The below table details the maturity, currency and interest rate details of the medium term borrowings:

Maturity	Currency	Fixed / Floating	Interest Rate	2015 AED'000	2014 AED'000
2015	USD	Floating	LIBOR + Margin	**-**	734,450
2016	USD	Floating	LIBOR + Margin	**319,332**	918,075
2017	USD	Floating	LIBOR + Margin	**1,057,780**	-
2018	USD	Floating	LIBOR + Margin	**936,437**	367,130
				2,313,549	2,019,655

17 OTHER LIABILITIES

	2015 AED'000	2014 AED'000
Interest payable	**76,904**	70,575
Staff related provisions	**39,570**	58,589
Negative fair value of derivatives (Note 21)	**69,462**	65,429
Acceptances	**639,742**	808,630
Others	**141,452**	209,535
	967,130	1,212,758

	2015 AED'000	2014 AED'000
Staff related provisions		
The aggregate employee entitlement liability comprises:		
Employees' end of service benefits	**29,115**	34,732
Other liabilities	**10,455**	23,857
	39,570	58,589

In accordance with UAE labour law, the Group provides for end of service benefit for its expatriate employees. Movements in the liability recognised in the consolidated statement of financial position in respect of end of service benefits are as follows:

	2015 AED'000	2014 AED'000
Liability as at 1 January	**34,732**	35,720
Expense recognised in the consolidated statement of income	**6,384**	5,977
End of service benefits paid	**(12,001)**	(6,965)
Liability as at 31 December	**29,115**	34,732

18 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised, issued and fully paid up share capital of the Bank comprises 1,375,033,766 (2014: 1,145,861,472) shares of AED 1 each.

At the annual general meeting held on 3 March 2015, the shareholders approved an increase in the share capital of the Bank to AED 1,375,033,766 by means of a scrip dividend of 229,172,294 shares of AED 1 each.

b) Special reserve

Article 82 of Federal Law No. 10 of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking requires that 10% of the net profit is transferred to a non-distributable special reserve until this reserve equals 50% of the paid up share capital.

18 SHARE CAPITAL AND RESERVES *(continued)*

c) Statutory reserve

Article 192 of the UAE Commercial Companies Law No.(8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the net profit is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital.

d) General reserve

The general reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the bank at an ordinary general meeting, on the recommendation of the Board of Directors.

e) Revaluation reserve

The revaluation reserve is used to record increases in the fair value of freehold land and buildings and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in other comprehensive income.

f) Dividends

The directors have proposed a cash dividend amounting to AED Nil (2014: cash dividend of AED 114,586,147 at AED 0.10 per share of AED 1 each) and a scrip dividend amounting to AED Nil (2014: AED 229,172,294 at AED 0.20 per share of AED 1 each). This is subject to the approval of the regulator and the shareholders at the Annual General Assembly to be held in March 2016.

19 CUMULATIVE CHANGES IN FAIR VALUES

	2015 AED'000	*2014 AED'000*
At 1 January	**(66,893)**	(51,875)
Net unrealised loss on available for sale investments	**(45,673)**	(15,848)
Available for sale investments – reclassified to statement of income	**2,700**	3,602
Reversal of gain on settlement of cash flow hedges	**-**	(2,772)
At 31 December	**(109,866)**	(66,893)

20 RELATED PARTY TRANSACTIONS

The Group carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Group, and all Directors of the Group and companies in which such shareholders and Directors have a significant interest and key management personnel. The significant balances outstanding at 31 December are as follows:

	2015 AED'000	2014 AED'000
Key management personnel of the Group:		
Loans and advances	**15,893**	19,619
Customers' deposits	**28,035**	42,389
Shareholders:		
Due from banks	**3,182**	2,609
Due to banks	**1,752**	3,575
Medium term borrowings	**141,703**	141,695
Directors:		
Loans and advances	**3,241**	55,774
Customers' deposits	**37,065**	14,459
Commitments and contingencies	**45**	45
Other related entities:		
Loans and advances	**248,611**	350,670
Investments	**9,336**	12,024
Due from banks	**111,965**	66,492
Due to banks	**12**	-
Customers' deposits	**308,659**	224,843
Commitments and contingencies	**297,791**	342,519
Shareholders, directors, their related entities and key management personnel		
Accrued interest income	**4,231**	1,350
Accrued interest expense	**1,066**	895

20 RELATED PARTY TRANSACTIONS *(continued)*

The income and expenses and purchase and sale of investments in respect of related parties during the year are as follows:

	2015 AED'000	2014 AED'000
Shareholders, directors, their related entities and key management personnel		
Interest income	**12,744**	21,203
Interest expense	**4,236**	4,735
Other Income	**644**	-
Management fee	**2,645**	7,133
Directors' remuneration	**-**	10,800

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to, and by, related parties is at normal commercial rates. Outstanding balances at year end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2015, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2014: AED Nil).

Compensation of key management personnel is as follows:

	2015 AED'000	2014 AED'000
Short term benefits	**31,588**	26,117
Employees' end of service benefits	**2,804**	1,639
Total compensation as at 31 December	**34,392**	27,756

	2015	2014
Number of key management personnel	**26**	23

The Group has leased office space in various premises owned by a related party. The property rental and associated expenses for the year amounted to AED 2,355,000 (2014: AED 2,281,000). The property rentals are negotiated each year at market rates.

21 DERIVATIVES

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

21 DERIVATIVES *(continued)*

The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor credit risk.

At 31 December 2015

				Notional amounts by term to maturity			
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
Derivatives held for trading:							
Forward contracts	**27,092**	**(25,171)**	**7,649,890**	**2,621,474**	**4,147,821**	**880,595**	**-**
Foreign currency options	**1,109**	**(1,109)**	**734,460**	**205,648**	**264,406**	**264,406**	**-**
Interest rate swaps	**1,142**	**(1,142)**	**213,892**	**-**	**-**	**213,892**	**-**
	29,343	**(27,422)**	**8,598,242**	**2,827,122**	**4,412,227**	**1,358,893**	**-**
Derivatives held for fair value hedge:							
Interest rate swaps	**-**	**(41,618)**	**1,026,813**	**-**	**-**	**36,723**	**990,090**
Derivatives held for cash flow hedge:							
Interest rate swaps	**-**	**(422)**	**183,615**	**-**	**-**	**183,615**	**-**
Total	**29,343**	**(69,462)**	**9,808,670**	**2,827,122**	**4,412,227**	**1,579,231**	**990,090**

At 31 December 2014

				Notional amounts by term to maturity			
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
Derivatives held for trading:							
Forward contracts	365	(16)	1,485,914	1,447,442	38,472	-	-
Foreign currency options	36,876	(36,876)	4,906,098	1,252,130	1,156,940	2,497,028	-
	37,241	(36,892)	6,392,012	2,669,572	1,195,412	2,497,028	-
Derivatives held for cash flow hedge:							
Interest rate swaps	-	(27,441)	752,625	-	-	-	752,625
Derivatives held for cash flow hedge:							
Interest rate swaps	-	(1,096)	183,605	-	-	183,605	-
Total	37,241	(65,429)	7,328,242	2,699,572	1,195,412	2,680,633	752,625

21 DERIVATIVES *(continued)*

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices of actual market transactions and the Group's best estimate of the most appropriate model inputs (Note 25).

Derivative product types

Forward Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Group has credit exposure to the counterparties of forward contracts.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. Approximately 95% (2014: 71%) of the Group’s derivative contracts are entered into with other financial institutions.

Purpose of derivatives

In the normal course of meeting the needs of the Group’s customers, the Group is party to forward foreign exchange and option contracts, interest rate swaps and forward rate agreements. In addition, as part of its asset and liability management, the Group uses these derivative instruments for hedging purposes in order to reduce its own exposure to current and expected risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures.

The Group uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate loans and investments. In such cases, the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as cash flow hedges.

Since strategic hedging does not qualify for special hedge accounting, forward foreign exchange and option contracts and interest rate swaps, other than mentioned above, are accounted for as trading instruments.

22 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments

The Group's contractual amounts in respect of letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced, guarantees are called for full amount following performance failure, and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to make the loan. These generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent future cash requirements.

The Group has the following credit related commitments:

	2015 AED'000	2014 AED'000
Contingent liabilities		
Letters of credit	**461,358**	777,624
Guarantees	**3,023,975**	3,225,904
	3,485,333	4,003,528
Commitments		
Undrawn loan commitments	**2,784,629**	2,667,483

23 RISK MANAGEMENT

Introduction

Risk is inherent in all of the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to their responsibilities.

Risk Management covers all risks including credit, liquidity, market and operational risk, and processes from origination to approval and ongoing control, review, maintenance and reporting of exposures. It also covers the high level organisation, roles and responsibilities of Board and management level committees, and authorities and processes relating to risk management, internal controls, compliance and internal audit functions.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Group's strategic planning process.

Risk Management Structure

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board Credit Committee

The Board Credit Committee (BCC) has the responsibility to establish credit risk strategy and monitor the overall credit process within the Group for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of the portfolio, and complying with Credit Policy and regulatory guidelines.

Board Audit Committee

The Board Audit Committee (BAC) is responsible for monitoring, reviewing and reporting to the Board on the formal arrangements relating to the financial and narrative reporting of the Group, internal controls, compliance and internal / external audit processes.

23 RISK MANAGEMENT *(continued)*

Introduction *(continued)*

Board Risk Committee
The Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancing the Group's risk management framework to best practices standards. This includes, but is not limited to, ensuring effective control structures and the monitoring of aggregate risk exposures (including but not limited to credit, market, liquidity, operational and legal).

Risk Management Group
The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organisation to support their activities, while safe-guarding the risk profile of the Group. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC and BRC.

Group Treasury
Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Group.

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of, and the Group's compliance with, its procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

Risk Measurement and Reporting Systems
Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect both the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to identify, analyse and control at an early stage. This information is presented and explained to the Board of Directors, the BRC and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assess the appropriateness of the allowance for credit losses on a quarterly basis. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure all business divisions have access to extensive, necessary and up-to-date information.

Regular briefings are given to the Chief Executive Officer, GMRC and all other relevant members of management on all aspects of risk taken by the Group including the utilisation of limits, proprietary investments and liquidity, plus any other risk developments.

Risk Mitigation
As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks.

23 RISK MANAGEMENT *(continued)*

Introduction *(continued)*

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment / contractual obligation, resulting in a financial loss to the Group. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Group. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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

	Notes	***Maximum exposure 2015 AED'000***	*Maximum exposure 2014 AED'000*
Cash and balances with UAE Central Bank (excluding cash on hand)	**10**	**2,936,633**	1,686,368
Due from banks	**11**	**864,386**	1,933,231
Loans and advances (net of provisions)	**7**	**15,671,631**	17,940,903
Investments	**12**	**2,549,660**	2,474,121
Other assets (excluding prepayments)	**14**	**785,743**	944,903
Total		**22,808,053**	24,979,526
Letters of credit	**22**	**461,358**	777,624
Guarantees	**22**	**3,023,975**	3,225,904
Undrawn loan commitments	**22**	**2,784,629**	2,667,483
Total		**6,269,962**	6,671,011
Total credit risk exposure		**29,078,015**	31,650,537

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

23 RISK MANAGEMENT *(continued)*

Credit Risk *(continued)*

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is discussed below.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client / counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2015 was AED 665,097,000 (2014: AED 465,395,000) before taking account of collateral or other credit enhancements and AED 665,097,000 (2014: AED 465,395,000) net of such protection.

The Group's maximum exposure to credit risk, after provisions but before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2015		2014	
	Assets AED'000	**Contingent Liabilities and commitments AED'000**	Assets AED'000	Contingent Liabilities and commitments AED'000
United Arab Emirates	**21,062,184**	**5,742,320**	22,910,721	6,107,964
Other Middle East countries	**1,391,515**	**174,474**	1,233,855	194,266
Europe	**157,652**	**78,868**	410,962	85,030
USA	**10,586**	**500**	51,070	38,148
Rest of World	**186,116**	**273,800**	372,918	245,603
Total	**22,808,053**	**6,269,962**	24,979,526	6,671,011

An industry sector analysis of the Group's on-balance sheet financial assets (excluding cash on hand), after provisions but before taking into account collateral held or other credit enhancements, is as follows:

	Maximum exposure 2015 AED'000	Maximum exposure 2014 AED'000
Financial Services	**5,712,908**	5,159,415
Trade	**3,290,291**	4,327,047
Manufacturing	**2,380,650**	2,761,946
Government and public sector	**2,851,626**	2,400,290
Construction	**794,099**	739,610
Other services	**1,912,961**	2,102,326
Other	**6,684,543**	8,014,423
	23,627,078	25,505,057
Less: impairment provision and interest in suspense on loans and advances	**(819,025)**	(525,531)
	22,808,053	24,979,526

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory and trade receivables.

The Group also obtains guarantees from parent companies for loans to their subsidiaries or other group companies.

23 RISK MANAGEMENT *(continued)*

Credit Risk *(continued)*

Management monitor the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitor the market value of collateral obtained during its periodic review of credit facilities and of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

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

	Neither past due nor impaired			Past due or individually impaired	Total
	High grade 2015 AED'000	Standard grade 2015 AED'000	Sub - standard grade 2015 AED'000	2015 AED'000	2015 AED'000
Balances with UAE Central Bank	**2,936,633**	**-**	**-**	**-**	**2,936,633**
Due from banks	**190,876**	**673,510**	**-**	**-**	**864,386**
Loans and advances (Gross)	**3,455,925**	**10,699,722**	**668,283**	**1,666,726**	**16,490,656**
Investments	**2,176,815**	**372,845**	**-**	**-**	**2,549,660**
Other assets	**205,765**	**547,426**	**25,619**	**6,933**	**785,743**
	8,966,014	**12,293,503**	**693,902**	**1,673,659**	**23,627,078**

	Neither past due nor impaired			Past due or individually impaired	Total
	High grade 2014 AED'000	Standard grade 2014 AED'000	Sub - standard grade 2014 AED'000	2014 AED'000	2014 AED'000
Balances with UAE Central Bank	1,686,368	-	-	-	1,686,368
Due from banks	908,971	1,024,260	-	-	1,933,231
Loans and advances (Gross)	4,923,911	11,960,467	489,662	1,092,394	18,466,434
Investments	1,989,846	484,275	-	-	2,474,121
Other assets	152,679	777,474	14,750	-	944,903
	9,661,775	14,246,476	504,412	1,092,394	25,505,057

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired.

23 RISK MANAGEMENT *(continued)*

Credit Risk *(continued)*

Aging analysis of past due but not impaired loans per class of on-balance sheet financial assets

	Less than 30 days 2015 AED'000	31 to 60 days 2015 AED'000	61 to 90 days 2015 AED'000	More than 91 days 2015 AED'000	Total 2015 AED'000
Loans and advances	**489,415**	**217,765**	**168,950**	**129,448**	**1,005,578**

	2014 AED'000	2014 AED'000	2014 AED'000	2014 AED'000	2014 AED'000
Loans and advances	414,038	91,829	45,288	68,373	619,528

The fair value of the collateral that the Group held at 31 December 2015 for past due but not impaired loans and advances to customers covers approximately 51% (2014: 47%) of the outstanding balance.

Carrying amount per class of on-balance sheet financial assets whose terms have been renegotiated

	2015 AED'000	2014 AED'000
Loans and advances	**708,554**	478,893

Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stressed circumstances. To limit this risk, management have arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the Central Bank of UAE equal to 14% of current deposits and 1% of time deposits. In accordance with the Group's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The most important of these is to maintain the regulatory limits for Lending to Stable Resources and Eligible Liquid Assets to total liabilities ratios. Eligible Liquid Assets ratio was introduced by Central Bank of the UAE in 2015 and replaced the Liquid Assets ratio. Eligible liquid assets consist of cash, balances with the Central Bank of UAE, short term bank deposits and eligible debt securities. The ratios as at the year end were as follows:

	2015	2014
Lending to Stable Resources Ratio	**81.0%**	85.8%
Eligible Liquid Assets Ratio	**18.7%**	-
Liquid Assets Ratio	**-**	11.5%

23 RISK MANAGEMENT *(continued)*

Liquidity risk *(continued)*

The Group stresses the importance of current accounts, time deposits and savings accounts as a source of funds to finance lending to customers. They are monitored using the lending to stable resources ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with term funding.

Maturities of assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date not taking account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds, as at 31 December 2015 is as follows:

	Less than 3 months AED'000	*From 3 months to 6 months AED'000*	*From 6 months to 12 months AED'000*	*Sub total less than 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Subtotal over 12 months AED'000*	*Undated AED'000*	*Total AED'000*
ASSETS									
Cash and balances with UAE Central Bank	3,075,352	-	-	3,075,352	-	-	-	-	3,075,352
Due from banks	772,578	91,808	-	864,386	-	-	-	-	864,386
Loans and advances (Gross)	3,952,252	799,015	534,784	5,286,051	6,661,758	4,542,847	11,204,605	-	16,490,656
Investments	36,905	55,570	57,296	149,771	967,543	1,432,346	2,399,892	9,690	2,559,350
Investment properties	-	-	-	-	-	-	-	96,000	96,000
Property and equipment	-	-	-	-	-	-	-	587,718	587,718
Other assets	629,909	122,324	34,208	786,441	40,745	-	40,745	-	827,186
Provision for impairment of loans and advances and interest in suspense	(819,025)	-	-	(819,025)	-	-	-	-	(819,025)
Sub-total	7,647,971	1,068,717	626,288	9,342,976	7,670,046	5,975,193	13,645,239	693,408	23,681,623
LIABILITIES AND SHAREHOLDERS' FUNDS									
Due to banks	151,543	-	519,173	670,716	367,230	-	367,230	-	1,037,946
Customers' deposits	12,332,706	1,998,830	1,715,242	16,046,778	728,265	-	728,265	-	16,775,043
Medium term borrowings	319,330	-	-	319,330	1,994,219	-	1,994,219	-	2,313,549
Other liabilities	701,322	121,674	32,715	855,711	42,144	40,160	82,304	29,115	967,130
Shareholders' funds	-	-	-	-	-	-	-	2,587,955	2,587,955
Sub-total	13,504,901	2,120,504	2,267,130	17,892,535	3,131,858	40,160	3,172,018	2,617,070	23,681,623
Net liquidity gap	(5,856,930)	(1,051,787)	(1,640,842)	(8,549,559)	4,538,188	5,935,033	10,473,221	(1,923,662)	-

23 RISK MANAGEMENT *(continued)*

Liquidity risk *(continued)*

The maturity profile of assets and liabilities at 31 December 2014 was as follows:

	Less than 3 months AED'000	*From 3 months to 6 months AED'000*	*From 6 months to 12 months AED'000*	*Sub total less than 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Subtotal over 12 months AED'000*	*Undated AED'000*	*Total AED'000*
ASSETS									
Cash and balances with UAE Central Bank	1,810,558	-	-	1,810,558	-	-	-	-	1,810,558
Due from banks	1,933,231	-	-	1,933,231	-	-	-	-	1,933,231
Loans and advances (Gross)	5,321,629	1,304,329	463,690	7,089,648	8,042,243	3,334,543	11,376,786	-	18,466,434
Investments	-	74,540	38,355	112,895	1,022,501	1,266,201	2,288,702	84,933	2,486,530
Investment properties	-	-	-	-	-	-	-	110,794	110,794
Property and equipment	-	-	-	-	-	-	-	409,115	409,115
Other assets	750,886	212,294	26,281	989,461	28,693	-	28,693	-	1,018,154
Provision for impairment of loans and advances and interest in suspense	(525,531)	-	-	(525,531)	-	-	-	-	(525,531)
Sub-total	9,290,773	1,591,163	528,326	11,410,262	9,093,437	4,600,744	13,694,181	604,842	25,709,285
LIABILITIES AND SHAREHOLDERS' FUNDS									
Due to banks	479,704	-	367,210	846,914	-	-	-	-	846,914
Customers' deposits	12,588,730	3,189,942	1,497,239	17,275,911	1,442,386	-	1,442,386	-	18,718,297
Medium term borrowings	-	-	275,407	275,407	1,744,248	-	1,744,248	-	2,019,655
Other liabilities	882,376	212,194	26,227	1,120,797	31,451	25,778	57,229	34,732	1,212,758
Shareholders' funds	-	-	-	-	-	-	-	2,911,661	2,911,661
Sub-total	13,950,810	3,402,136	2,166,083	19,519,029	3,218,085	25,778	3,243,863	2,946,393	25,709,285
Net liquidity gap	(4,660,037)	(1,810,973)	(1,637,757)	(8,108,767)	5,875,352	4,574,966	10,450,318	(2,341,551)	-

23 RISK MANAGEMENT *(continued)*

Liquidity risk *(continued)*

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial Liabilities	*On demand AED'000*	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
31 December 2015						
Due to banks	**6,458**	**145,230**	**522,613**	**369,442**	**-**	**1,043,743**
Customers' deposits	**5,126,022**	**7,257,186**	**3,770,944**	**749,481**	**-**	**16,903,633**
Medium term borrowings	**-**	**319,552**	**-**	**2,075,902**	**-**	**2,395,454**
Other liabilities	**141,452**	**478,706**	**140,796**	**30,695**	**-**	**791,649**
Financial derivatives	**-**	**6,682**	**20,045**	**101,236**	**74,227**	**202,190**
Total undiscounted financial liabilities	**5,273,932**	**8,207,356**	**4,454,398**	**3,326,756**	**74,227**	**21,336,669**

	On demand AED'000	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
31 December 2014						
Due to banks	10,936	468,836	369,283	-	-	849,055
Customers' deposits	8,488,148	4,228,376	4,674,275	1,463,779	-	18,854,578
Medium term borrowings	-	-	281,677	1,790,018	-	2,071,695
Other liabilities	209,535	578,589	226,817	27,081	-	1,042,022
Financial derivatives	-	4,949	14,845	76,088	56,026	151,908
Total undiscounted financial liabilities	8,708,619	5,280,750	5,566,897	3,356,966	56,026	22,969,258

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, these amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts.

23 RISK MANAGEMENT *(continued)*

Liquidity risk *(continued)*

Analysis of financial liabilities by remaining contractual maturities (continued)

	On demand AED'000	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
31 December 2015						
Inflows	**-**	**1,780**	**6,818**	**58,124**	**58,008**	**124,730**
Outflows	**-**	**(6,682)**	**(20,045)**	**(101,236)**	**(74,227)**	**(202,190)**
Net	**-**	**(4,902)**	**(13,227)**	**(43,112)**	**(16,219)**	**(77,460)**
Discounted at applicable interbank rates	**-**	**(4,872)**	**(13,124)**	**(42,500)**	**(15,904)**	**(76,401)**

	On demand AED'000	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
31 December 2014						
Inflows	-	643	3,602	50,214	50,308	104,767
Outflows	-	(4,949)	(14,845)	(76,088)	(56,026)	(151,908)
Net	-	(4,306)	(11,243)	(25,874)	(5,718)	(47,141)
Discounted at applicable interbank rates	-	(4,295)	(11,189)	(25,497)	(5,596)	(46,577)

The table below shows the contractual maturity profile of the Group's contingent liabilities and commitments:

	On demand AED'000	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
31 December 2015						
Contingent Liabilities	**-**	**2,357,286**	**852,077**	**275,970**	**-**	**3,485,333**
Commitments	**2,784,629**	**-**	**-**	**-**	**-**	**2,784,629**
Total	**2,784,629**	**2,357,286**	**852,077**	**275,970**	**-**	**6,269,962**
31 December 2014						
Contingent Liabilities	-	2,451,600	1,163,311	388,617	-	4,003,528
Commitments	2,667,483	-	-	-	-	2,667,483
Total	2,667,483	2,451,600	1,163,311	388,617	-	6,671,011

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

23 RISK MANAGEMENT *(continued)*

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Group's Asset and Liability Committee (ALCO).

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities.

The following table summarises interest rate sensitivity position at the year end. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

31 December 2015	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Non Interest Sensitive AED'000*	*Carrying amount AED'000*
ASSETS						
Cash and balances with the UAE Central Bank	**800,000**	**-**	**-**	**-**	**2,275,352**	**3,075,352**
Due from banks	**594,892**	**91,808**	**-**	**-**	**177,686**	**864,386**
Loans and advances to customers	**5,888,391**	**1,640,236**	**6,735,160**	**1,407,844**	**-**	**15,671,631**
Investments	**73,628**	**112,866**	**967,543**	**1,395,626**	**9,687**	**2,559,350**
Investment properties	**-**	**-**	**-**	**-**	**96,000**	**96,000**
Property and equipment	**-**	**-**	**-**	**-**	**587,718**	**587,718**
Other assets	**-**	**-**	**-**	**-**	**827,186**	**827,186**
	7,356,911	**1,844,910**	**7,702,703**	**2,803,470**	**3,973,629**	**23,681,623**
LIABILITIES & SHAREHOLDERS' FUNDS						
Due to banks	**861,183**	**170,305**	**-**	**-**	**6,458**	**1,037,946**
Customers' deposits	**7,620,236**	**3,632,426**	**708,387**	**-**	**4,813,994**	**16,775,043**
Medium term loans	**1,714,804**	**598,745**	**-**	**-**	**-**	**2,313,549**
Other liabilities	**-**	**-**	**-**	**-**	**967,130**	**967,130**
Shareholders' funds	**-**	**-**	**-**	**-**	**2,587,955**	**2,587,955**
	10,196,223	**4,401,476**	**708,387**	**-**	**8,375,537**	**23,681,623**
Interest rate sensitivity	**(2,839,312)**	**(2,556,566)**	**6,994,316**	**2,803,470**	**(4,401,908)**	**-**
Cumulative interest rate sensitivity gap	**(2,839,312)**	**(5,395,878)**	**1,598,438**	**4,401,908**	**-**	**-**

23 RISK MANAGEMENT *(continued)*

Interest rate risk *(continued)*

31 December 2014	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Non Interest Sensitive AED'000	Carrying amount AED'000
ASSETS						
Cash and balances with the UAE Central Bank	-	-	-	-	1,810,558	1,810,558
Due from banks	1,637,185	-	-	-	296,046	1,933,231
Loans and advances to customers	5,618,585	2,140,035	8,220,899	1,961,384	-	17,940,903
Investments	-	112,895	1,022,501	1,338,725	12,409	2,486,530
Investment properties	-	-	-	-	110,794	110,794
Property and equipment	-	-	-	-	409,115	409,115
Other assets	-	-	-	-	1,018,154	1,018,154
	7,255,770	2,252,930	9,243,400	3,300,109	3,657,076	25,709,285
LIABILITIES & SHAREHOLDERS' FUNDS						
Due to banks	468,768	367,210	-	-	10,936	846,914
Customers' deposits	4,811,791	4,599,960	1,426,400	-	7,880,146	18,718,297
Medium term loans	2,019,655	-	-	-	-	2,019,655
Other liabilities	-	-	-	-	1,212,758	1,212,758
Shareholders' funds	-	-	-	-	2,911,661	2,911,661
	7,300,214	4,967,170	1,426,400	-	12,015,501	25,709,285
Interest rate sensitivity	(44,444)	(2,714,240)	7,817,000	3,300,109	(8,358,425)	-
Cumulative interest rate sensitivity gap	(44,444)	(2,758,684)	5,058,316	8,358,425	-	-

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement. There is no material impact on the Group's equity.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2015, including the effect of hedging instruments.

	2015		2014	
	Change in basis points	**Sensitivity of net interest income**	Change in basis points	Sensitivity of net interest income
Currency				
All currencies	**+25**	**7,710**	+25	3,122
All currencies	**-25**	**(7,710)**	-25	(3,122)

The interest rate sensitivity set out above relates primarily to the US Dollar as the Group does not have any significant net exposure for non-trading floating rate financial assets and financial liabilities denominated in other currencies.

23 RISK MANAGEMENT *(continued)*

Currency risk

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

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

The tables below indicates the currencies to which the Group had significant exposure at 31 December 2015 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the consolidated statement of income (due to the fair value of currency sensitive non trading monetary assets and liabilities) and equity (due to change in the fair value of currency swaps used as cash flow hedges). A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	2015		*2014*	
	Change in currency rate in %	***Effect on profit AED'000***	*Change in currency rate in %*	*Effect on profit AED'000*
Currency				
EUR	**+10**	**(8)**	+10	(15)
GBP	**+10**	**(1)**	+10	30

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. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

24 SEGMENTAL ANALYSIS

Primary segment information

For the purposes of reporting to the chief operating decision makers, the Group is organised into three segments:

Retail banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities as well as Islamic banking services;

Corporate banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;

Others - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations, Al Sadarah Investment Company, the SME business and head office functions.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is debited / credited to business segments based on a pool rate which approximates the marginal cost of funds.

24 SEGMENTAL ANALYSIS *(continued)*

Primary segment information *(continued)*

Segmental information for the year ended 31 December 2015 is as follows:

	Retail banking AED'000	Corporate banking AED'000	Others AED'000	Total AED'000
Interest and other income	**425,623**	**658,436**	**358,600**	**1,442,659**
Interest and other expense	**(242,843)**	**(324,563)**	**(122,144)**	**(689,550)**
Impairment losses on loans and advances	**(227,242)**	**(366,927)**	**(293,622)**	**(887,791)**
Depreciation	**(11,601)**	**(14,152)**	**(5,712)**	**(31,465)**
Loss for the year	**(56,063)**	**(47,206)**	**(62,878)**	**(166,147)**
Capital Expenditure - Property and equipment	**73,928**	**111,950**	**25,346**	**211,224**
At 31 December 2015				
Segment Assets	**5,022,474**	**11,302,516**	**7,356,633**	**23,681,623**
Segment Liabilities	**4,514,272**	**12,455,048**	**4,124,348**	**21,093,668**

Segmental information for the year ended 31 December 2014 was as follows:

	Retail banking AED'000	Corporate banking AED'000	Others AED'000	Total AED'000
Interest and other income	440,873	778,075	378,685	1,597,633
Interest and other expense	(192,927)	(256,585)	(142,130)	(591,642)
Impairment losses on loans and advances	(137,480)	(210,062)	(26,533)	(374,075)
Depreciation	(8,242)	(14,011)	(4,255)	(26,508)
Profit for the year	102,224	297,417	205,767	605,408
Capital Expenditure - Property and equipment	72,717	130,046	20,568	223,331
At 31 December 2014				
Segment Assets	5,314,360	12,555,618	7,839,307	25,709,285
Segment Liabilities	5,440,063	11,814,205	5,543,356	22,797,624

Secondary segment information
The Group operates in only one geographic area, the Middle East. Accordingly, no further geographical analysis of operating income, net profit and net assets is given.

25 FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy
The Group uses 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 that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial Instruments and assets recorded at fair value
The following table shows an analysis of financial instruments and assets recorded at fair value by level of the fair value hierarchy:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2015				
Financial Assets				
Derivative financial instruments				
Interest rate swaps	-	1,142	-	1,142
Forward contracts	-	27,092	-	27,092
Currency options	-	1,109	-	1,109
	-	29,343	-	29,343
Financial investments available-for-sale				
Quoted investments				
Government debt securities	1,017,445	-	-	1,017,445
Other debt securities	1,532,215	-	-	1,532,215
Equities	9,614	-	-	9,614
Unquoted Investments				
Equities	-	-	76	76
	2,559,274	-	76	2,559,350
Investment properties	-	96,000	-	96,000
	2,559,274	125,343	76	2,684,693
Financial Liabilities				
Derivative financial instruments				
Interest rate swaps	-	43,182	-	43,182
Forward contracts	-	25,171	-	25,171
Currency options	-	1,109	-	1,109
	-	69,462	-	69,462

25 FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

Financial Instruments and assets recorded at fair value *(continued)*

31 December 2014	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
Financial Assets				
Derivative financial instruments				
Forward contracts	-	365	-	365
Currency options	-	36,876	-	36,876
	-	37,241	-	37,241
Financial investments available-for-sale				
Quoted investments				
Government debt securities	947,637	-	-	947,637
Other debt securities	1,526,484	-	-	1,526,484
Equities	12,333	-	-	12,333
Unquoted Investments				
Equities	-	-	76	76
	2,486,454	-	76	2,486,530
Investment properties	-	110,794	-	110,794
	2,486,454	148,035	76	2,634,565
Financial Liabilities				
Derivative financial instruments				
Interest rate swaps	-	28,537	-	28,537
Forward contracts	-	16	-	16
Currency options	-	36,876	-	36,876
	-	65,429	-	65,429

The following is a description of the determination of fair value for financial instruments and assets which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives
Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency options and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial investments – available-for-sale
Available-for-sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

25 FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

Financial Instruments and assets recorded at fair value *(continued)*

Movements in level 3 financial instruments measured at fair value
There was no movement between the levels of financial instruments during the year (2014: AED Nil).

Gains or losses on level 3 financial instruments included in the profit or loss for the year:
No gains or losses on level 3 financial instruments were included in the profit or loss for the year (2014: AED Nil).

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions
The impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument is negligible.

Financial Instruments not recorded at fair value

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

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

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

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

26 CAPITAL ADEQUACY

The Group actively manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules / ratios") and adopted by the Central Bank of UAE in supervising the Bank.

Capital management
The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital base and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital base, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

26 CAPITAL ADEQUACY *(continued)*

The risk asset ratio calculations, in accordance with the capital adequacy guidelines as per Basel II accord established for the global banking industry, are as follows:

	2015 AED'000	2014 AED'000
Risk Weighted Exposures		
Credit Risk	**16,615,165**	19,424,576
Market Risk	**80,023**	75,568
Operational Risk	**2,279,017**	1,999,763
Total Risk Weighted Exposures	**18,974,205**	21,499,907

	2015 AED'000	2014 AED'000
Tier I and II Capital		
Tier I Capital	**2,697,107**	2,977,804
Tier II Capital	**97,824**	175,914
Capital Base	**2,794,931**	3,153,718

Capital Ratio:		
Total regulatory capital as a percentage of total risk weighted assets	**14.7%**	14.7%
Total tier I regulatory capital as a percentage of total risk weighted assets	**14.2%**	13.9%

Regulatory capital consists mainly of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation less accrued dividends. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of UAE. The other component of regulatory capital is Tier 2 capital, which includes general provisions and cumulative changes in fair values.

The Group has complied with all the requirements as set by the Central Bank of UAE in respect of capital adequacy.

27 SOCIAL CONTRIBUTION

Social contributions made during the year amount to AED 555,000 (2014: AED 715,000)

BASEL II - PILLAR 3 DISCLOSURES

UNITED ARAB BANK P.J.S.C.

BASEL II - PILLAR 3 DISCLOSURES

At 31 December 2015

These disclosures are being made in compliance with Circular No. 27/2009 dated 17 November 2009 issued by the Central Bank of the UAE and are in conformity with Basel II capital adequacy calculations for 31 December 2015 prepared in line with the circular. References have been made to the audited financial statements of 31 December 2015 for additional details only, where considered relevant.

These disclosures pertain to the operations of United Arab Bank (the "Bank") and its subsidiary (the "Group") as at 31 December 2015.

A. CAPITAL STRUCTURE

Category	Summarized terms & conditions and main features	2015 AED'000	2014 AED'000
Tier 1 Capital			
1. Paid up share capital	Ordinary Shares of AED 1 each	**1,375,033**	1,145,861
2. Reserves			
a. Statutory reserve (incl. Share Premium)	Under Article 192 of UAE Commercial Companies Law No 8 of 1984	**495,214**	495,214
b. Special reserve	Under Article 82 of Union Law No. 10 of 1980	**412,659**	412,659
c. General Reserve	As per Shareholders' resolution on recommendation of Board	**9,311**	9,311
d. Retained earnings	After transfer of Net Profit but before appropriations for the year	**404,890**	914,759
Tier 1 Capital - Subtotal		**2,697,107**	2,977,804
Tier 2 Capital			
General provisions	In terms of rules laid down by the Central Bank of the UAE	**207,690**	242,807
Revaluation reserve	Revaluation reserve on Bank's property assets	**714**	750
Cumulative changes in fair values	Unrealized loss on available-for-sale investments	**(109,866)**	(66,893)
Less: Deductions for inadmissible items	Revaluation reserve on Bank's property assets	**(714)**	(750)
Tier 2 Capital - Subtotal		**97,824**	175,914
Tier 3 Capital		**-**	-
Total eligible Capital after deductions - Capital Base		**2,794,931**	3,153,718

B. CAPITAL ADEQUACY

a) Qualitative Disclosures

The Bank has adopted the Standardized Approach for computation of Credit and Market Risks and the Basic Indicator Approach for Operational Risks, in terms of guidelines for implementation of Basel II capital accord issued by the Central Bank of the UAE under Circular No. 27/2009 dated 17 November 2009.

Risk Management objectives and policies

The Bank operates a Group Risk Department headed by the Chief Risk Officer (CRO). This department is responsible for managing all three risk segments, namely Credit, Market and Operational risks. The Bank also possesses a Board Audit Committee (BAC) and Board Risk Committee (BRC), which approves the Bank's policies on all audit and risk issues and provides oversight of the Audit, Risk and Compliance functions of the Bank. These steps ensure that the risk management framework has a solid foundation and is able to address all relevant risks in a coordinated and well structured manner.

- Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as geographic location.

The Bank has a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating which are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

- Market Risk

The main components of the Bank's Market Risk are interest risk, foreign exchange risk and equity price risk.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank's Treasury function manages this risk through monitoring of such gaps on a regular basis.

Fluctuations in exchange rates for different currencies are a source of Foreign Exchange Risk. The Board has established limits on the open Foreign Exchange position in order to manage such risks. These forex positions are monitored on a daily basis and hedging strategies are used by the Treasury function to ensure that positions are maintained within the established limits.

B. CAPITAL ADEQUACY *(continued)*

a) Qualitative Disclosures *(continued)*

Equity Price risk arises due to fluctuations in prices of Bank's equity holdings. This risk is avoided by keeping exposures at very low levels, besides regular monitoring of the prices.

In addition to the above safeguards, market risks are also reviewed on a regular basis by the Bank's Asset and Liability Committee (ALCO), and corrective measures taken where considered necessary.

- *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, and / or lead to financial loss.

The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage these risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes (including the activities of Internal Audit).

b) Quantitative Disclosures

In terms of Circular No. 27/2009 dated 17 November 2009 issued by the Central Bank of the UAE, the minimum capital requirement is 12% of Total Risk Weighted Assets. Computations of the Group's Capital Adequacy Ratio are as follows:

Category	**2015 AED'000**	2014 AED'000
Risk Weighted Assets		
1. Credit Risk - Standardized Approach	**16,615,165**	19,424,576
2. Market Risk - Standardized Approach	**80,023**	75,568
3. Operational Risk - Basic Indicator Approach	**2,279,017**	1,999,763
Total Risk Weighted Assets	**18,974,205**	21,499,707
Capital Base	**2,794,931**	3,153,718
Capital Ratio (%)		
a. Total for the Group	**14.7%**	14.7%
b. Tier 1 ratio only for the Group	**14.2%**	13.9%

C. CREDIT RISK UNDER STANDARDIZED APPROACH

1. Details of Exposures, Risk Mitigants and Risk Weighted Assets as at 31 December 2015:

Category	On and Off Balance Sheet Exposures (Gross outstanding) AED'000	Specific Provision & Interest in Suspense AED'000	Exposure before Credit Risk Mitigants AED'000	Credit Risk Mitigants AED'000	Exposure after Credit Risk Mitigants AED'000	Exposure after Credit Conversion Factors (CCF) AED'000	Risk Weighted Assets AED'000
Claims on Sovereigns	3,206,106	-	3,206,106	-	3,206,106	3,206,106	-
Claims on Non-Central Govt Public Sector Entities (PSEs)	1,443,411	-	1,443,411	-	1,443,411	1,443,411	-
Claims on Multi Lateral Development Banks	-	-	-	-	-	-	-
Claims on Banks	2,232,729	-	2,232,729	-	2,232,729	2,161,837	960,423
Claims on Securities Firms	-	-	-	-	-	-	-
Claims on Corporates	12,758,471	-	12,758,471	-	12,758,471	11,446,818	9,668,125
Claims included in the Regulatory Retail Portfolio	2,560,913	-	2,560,913	-	2,560,913	2,560,913	1,931,161
Claims secured by Residential Property	2,070,451	-	2,070,451	-	2,070,451	2,070,451	734,992
Claims secured by Commercial Real Estate	1,586,960	-	1,586,960	-	1,586,960	1,586,960	1,571,445
Past Due Loans	661,150	(422,391)	238,759	-	238,759	238,759	258,124
Higher-Risk Categories	-	-	-	-	-	-	-
Other Assets	1,626,318	-	1,626,318	-	1,626,318	1,626,318	1,490,895
Claims on Securitized Assets	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-	-
TOTAL	28,146,509	(422,391)	27,724,118	-	27,724,118	26,341,573	16,615,165

C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

1. Details of Exposures, Risk Mitigants and Risk Weighted Assets as at 31 December 2014:

Category	On and Off Balance Sheet Exposures	Specific Provision & Interest in Suspense	Exposure before Credit Risk Mitigants	Credit Risk Mitigants	Exposure after Credit Risk Mitigants	Exposure after Credit Conversion Factors (CCF)	Risk Weighted Assets
	(Gross outstanding) *AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Claims on Sovereigns	2,124,990	-	2,124,990	-	2,124,990	2,124,990	-
Claims on Non-Central Govt Public Sector Entities (PSEs)	870,040	-	870,040	-	870,040	870,040	-
Claims on Multi Lateral Development Banks	-	-	-	-	-	-	-
Claims on Banks	3,230,939	-	3,230,939	-	3,230,939	3,125,327	1,130,435
Claims on Securities Firms	-	-	-	-	-	-	-
Claims on Corporates	15,294,881	-	15,294,881	-	15,294,881	11,060,497	11,848,632
Claims included in the Regulatory Retail Portfolio	3,293,414	-	3,293,414	-	3,293,414	3,293,414	2,486,507
Claims secured by Residential Property	2,051,897	-	2,051,897	-	2,051,897	2,051,897	747,570
Claims secured by Commercial Real Estate	1,440,080	-	1,440,080	-	1,440,080	1,440,080	1,407,632
Past Due Loans	472,866	(259,025)	213,841	-	213,841	213,841	253,714
Higher-Risk Categories	-	-	-	-	-	-	-
Other Assets	1,672,261	-	1,672,261	-	1,672,261	1,672,261	1,550,086
Claims on Securitized Assets	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-	-
TOTAL	30,451,368	(259,025)	30,192,343	-	30,192,343	25,852,347	19,424,576

C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

2. Details of Exposures by Industry Segment as at 31 December 2015:

Category	Loans and advances AED'000	Investments AED'000	Other Assets AED'000	Total Funded AED'000	Off balance Sheet AED'000	Total Unfunded AED'000	*Total* *AED'000*
Agriculture, Livestock and Fishery	-	-	-	-	-	-	-
Extractive Industries	43,168	-	-	43,168	9,176	9,176	52,344
Manufacturing Industries	2,151,555	-	185,927	2,337,482	876,740	876,740	3,214,222
Electricity, Gas and Water	28,294	-	-	28,294	20,264	20,264	48,558
Construction	783,641	-	10,458	794,099	1,281,090	1,281,090	2,075,189
Wholesale / Retail Trade	2,887,297	-	402,994	3,290,291	725,630	725,630	4,015,921
Restaurants and Hotels	-	-	-	-	-	-	-
Transportation, Storage and Communication	481,895	-	-	481,895	183,848	183,848	665,743
Real Estate and Business Services	-	-	-	-	-	-	-
Social and Private Services	1,362,410	-	40,362	1,402,772	172,719	172,719	1,575,491
Financial Services Sector	1,374,422	401,155	3,947,021	5,722,598	366,585	366,585	6,089,183
Government	693,431	2,158,195	-	2,851,626	-	-	2,851,626
Household / Personal	6,682,272	-	-	6,682,272	38,939	38,939	6,721,211
Others	2,271	-	834,536	836,807	214	214	837,021
Total	16,490,656	2,559,350	5,421,298	24,471,304	3,675,205	3,675,205	28,146,509

C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

2. Details of Exposures by Industry Segment as at 31 December 2014:

Category	Loans and advances	Investments	Other Assets	Total Funded	Off balance Sheet	Total Unfunded	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Agriculture, Livestock and Fishery	9,019	-	-	9,019	364	364	9,383
Extractive Industries	56,774	-	-	56,774	8,840	8,840	65,614
Manufacturing Industries	2,411,480	-	293,692	2,705,172	964,016	964,016	3,669,188
Electricity, Gas and Water	96,997	-	-	96,997	25,929	25,929	122,926
Construction	686,943	-	52,667	739,610	1,421,279	1,421,279	2,160,889
Wholesale / Retail Trade	3,924,878	-	402,169	4,327,047	980,855	980,855	5,307,902
Restaurants and Hotels	-	-	-	-	-	-	-
Transportation, Storage and Communication	485,460	-	-	485,460	230,522	230,522	715,982
Real Estate and Business Services	-	-	-	-	-	-	-
Social and Private Services	1,289,859	169,907	60,102	1,519,868	198,272	198,272	1,718,140
Financial Services Sector	1,248,555	303,670	3,755,872	5,308,097	378,900	378,900	5,686,997
Government	501,730	1,898,560	-	2,400,290	-	-	2,400,290
Household / Personal	7,745,709	-	-	7,745,709	18,867	18,867	7,764,576
Others	9,030	114,393	680,108	803,531	25,950	25,950	829,481
Total	18,466,434	2,486,530	5,244,610	26,197,574	4,253,794	4,253,794	30,451,368

C. CREDIT RISK UNDER STANDARDIZED APPROACH (*continued*)

3. Gross Exposure under Standardized Approach based on External Ratings

a) Qualitative Disclosures

For purposes of computing Risk Weighted Assets, the Bank considers the ratings assigned by Moody's, Fitch, S&P and Capital Intelligence; which are ECAIs (External Credit Assessment Institutions) as approved by the Central Bank of the UAE.

b) Quantitative Disclosures

Gross Exposure before Credit Risk Mitigants (CRM)

Category	2015			2014		
	Rated AED'000	Unrated AED'000	Total AED'000	Rated AED'000	Unrated AED'000	Total AED'000
Claims on Sovereigns	3,145,257	60,850	3,206,106	1,849,626	275,364	2,124,990
Claims on Non-Central Govt Public Sector Entities (PSEs)	576,731	866,680	1,443,411	368,311	501,729	870,040
Claims on Multi Lateral Development Banks	-	-	-	-	-	-
Claims on Banks	2,093,384	139,344	2,232,729	3,172,873	58,066	3,230,939
Claims on Securities Firms	-	-	-	-	-	-
Claims on Corporates	993,278	11,765,193	12,758,471	947,713	14,347,168	15,294,881
Claims included in the Regulatory Retail Portfolio	-	2,560,913	2,560,913	-	3,293,414	3,293,414
Claims secured by Residential Property	-	2,070,451	2,070,451	-	2,051,897	2,051,897
Claims secured by Commercial Real Estate	-	1,586,960	1,586,960	-	1,440,080	1,440,080
Past Due Loans	-	238,759	238,759	-	213,841	213,841
Higher-Risk Categories	-	-	-	-	-	-
Other Assets	9,336	1,616,982	1,626,318	12,024	1,660,237	1,672,261
Claims on Securitized Assets	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-
TOTAL	**6,817,986**	**20,906,132**	**27,724,118**	6,350,547	23,841,796	30,192,343

C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

4. Exposure by Currency Type

The Bank's exposures are mainly in local currency, hence, risk of exposures in foreign currency is minimal. For details kindly refer to Note 23 "Risk Management – Currency Risk" of the Notes to the Financial Statements as at 31 December 2015.

5. Exposure by Geographical Region

The Bank has branches only in the UAE, hence, its exposures are mainly within the country. For details kindly refer to Note 23 "Risk Management – Credit Risk" of the Notes to the Financial Statements as at 31 December 2015.

6. Exposure by Economic Sector

For details kindly refer to Note 23 "Risk Management – Credit Risk" of the Notes to the Financial Statements as at 31 December 2015.

7. Exposures by Residual Contractual Maturity

For details kindly refer to Note 23 "Risk Management – Liquidity Risk" of the Notes to the Financial Statements as at 31 December 2015.

8. Past due and impaired loans

a) Qualitative Disclosures

Definitions of past due and impaired

Past due accounts are those where the obligations are not met on the due date.

A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more event(s) that has occurred after the initial recognition of the asset, and based on reliable estimates which impact(s) future cash flows of the financial asset or group of financial assets.

Evidence of impairment may include: (a) indications that the borrower or a group of borrowers is experiencing significant financial difficulty; (b) the probability that they will enter bankruptcy or other financial re-organisation; (c) default or delinquency in interest or principal payments; (d) conduct of the account is not in line with Central Bank of the UAE guidelines; (e) where observable data indicates that there is a measurable decrease in the estimated future cash flows; and (f) where the entity is in arrears or facing economic conditions that correlate with defaults.

C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

a) Qualitative Disclosures *(continued)*

Description of approaches followed for creating Specific and General Provisions:

Specific

Specific provisioning on loans and advances are made as follows:

- On Corporate accounts provisions are made in compliance with the above, in particular, with IAS 39 standards

- On Retail accounts provisions are made as outlined below:

- Substandard accounts	25%
- Doubtful accounts	50%
- Loss accounts	100%

General

General Provisions are calculated in line with the Central Bank of the UAE guidelines. According to the guidelines, such provisions are required to be increased progressively until 2014 to the level of 1.5% of the Credit Risk Weighted Assets (CRWA) for Loans and Advances and off Balance Sheet commitments (excluding those impaired), computed in terms of Basel II Standardised Approach.

C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

b) Quantitative Disclosures

Past due and impaired Loans by Industry Segment as at 31 December 2015:

Category	past due but not impaired				Impaired loans	Provision & Interest in Suspense
	0-30 days past due	31-60 days past due	61-90 days past due	Over 91 days past due		
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Agriculture, Livestock and Fishery	-	-	-	30	-	-
Extractive Industries	1,271	417	4,088	3,244	-	-
Manufacturing Industries	39,861	26,282	23,545	16,915	61,865	41,740
Electricity, Gas and Water	2,492	5,866	-	-	-	-
Construction	3,337	-	3,045	2,107	85,338	84,609
Wholesale / Retail Trade	115,014	114,595	97,623	103,016	292,405	217,032
Restaurants and Hotels	-	-	-	-	-	-
Transportation, Storage and Communication	3,158	12	2,003	2,756	2,137	570
Real Estate and Business Services	19,564	465	189	-	-	-
Social and Private Services	-	-	-	-	10,713	6,637
Financial Services Sector	132	-	-	-	-	-
Government	-	-	-	-	-	-
Household / Personal	304,586	70,128	38,457	1,380	208,692	71,803
Total	**489,415**	**217,765**	**168,950**	**129,448**	**661,150**	**422,391**

C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

b) Quantitative Disclosures *(continued)*

Past due and impaired Loans by Industry Segment as at 31 December 2014:

Category	past due but not impaired				Impaired loans	Provision & Interest in Suspense
	0-30 days past due	31-60 days past due	61-90 days past due	Over 91 days past due		
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Agriculture, Livestock and Fishery	-	-	-	35	-	-
Extractive Industries	-	-	-	-	-	-
Manufacturing Industries	8,703	3,988	1,951	16,293	2,236	2,236
Electricity, Gas and Water	8,800	1,675	1,778	4,752	-	-
Construction	14,803	254	262	7,123	79,349	12,418
Wholesale / Retail Trade	103,788	18,586	22,186	27,001	243,272	226,240
Restaurants and Hotels	-	-	-	-	38,845	18,131
Transportation, Storage and Communication	313	408	4	38	-	-
Real Estate and Business Services	-	-	-	-	-	-
Social and Private Services	-	-	-	-	-	-
Financial Services Sector	261	-	-	-	-	-
Government	-	-	-	-	-	-
Household / Personal	277,370	66,918	19,107	13,131	109,164	-
Total	414,038	91,829	45,288	68,373	472,866	259,025

C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

b) Quantitative Disclosures *(continued)*

- Past due and impaired loans by Geographic Region as at 31 December 2015:

Geographic Region	**past due but not impaired**				**Impaired loans**	**Provision & Interest in Suspense**
	0-30 days past due	**31-60 days past due**	**61-90 days past due**	**Over 91 days past due**		
	AED'000	***AED'000***	***AED'000***	***AED'000***	***AED'000***	***AED'000***
United Arab Emirates	**489,415**	**217,765**	**168,950**	**129,448**	**661,150**	**422,391**
Total	**489,415**	**217,765**	**168,950**	**129,448**	**661,150**	**422,391**

Past due and impaired loans by Geographic Region as at 31 December 2014:

Geographic Region	past due but not impaired				Impaired loans	Provision & Interest in Suspense
	0-30 days past due	31-60 days past due	61-90 days past due	Over 91 days past due		
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
United Arab Emirates	414,038	91,829	45,288	68,373	472,866	259,025
Total	414,038	91,829	45,288	68,373	472,866	259,025

Reconciliation of changes in Provision for Impaired Loans

	2015 AED'000	*2014 AED'000*
Balance as at 1 January	**500,843**	263,802
Add: Charge for the year		
Specific Provisions	**901,819**	295,959
General Provisions	**30,830**	92,050
Less: Write off of impaired loans	**(617,012)**	(150,968)
Less: Recovery of loans previously written off	**-**	-
Less: Write back of provisions for loans	**(30,000)**	-
Less: Adjustments of loan loss provisions	**-**	-
Balance as at 31 December	**786,480**	500,843

C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

9. Credit Risk Mitigation – Disclosures for Standardized Approach

a) Qualitative Disclosures

The Bank has a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating which is subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash, securities, charges over real estate, inventory and trade receivables. The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other Group companies.

The Bank monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement. It also monitors the market value of collateral obtained, during its review of the adequacy of the allowance for impairment losses. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

b) Quantitative Disclosures

Exposures	**2015 AED'000**	2014 AED'000
Gross Exposure prior to Credit Risk Mitigation	**27,724,118**	30,192,343
Credit Risk Mitigants		
- Direct Deductions:		
Exposure covered by on-balance sheet netting	**-**	-
- Substitution by Risk Weights:		
Exposure covered by Guarantees		
from 100%	**-**	(159,623)
to 20%	**-**	3,500
50%	**-**	153,146
100%	**-**	2,977
Exposures covered by collaterals under simple approach		
from 150%	**-**	(315)
from 100%	**(1,243,424)**	(1,321,656)
from 75%	**-**	(26,181)
to 0%	**1,243,424**	1,348,152
Net Exposures after Credit Risk Mitigation	**27,724,118**	30,192,343
Risk Weighted Assets	**16,615,165**	19,424,576

D. MARKET RISK UNDER STANDARDISED APPROACH

1. Capital required against Market Risk and equivalent Risk Weighted Assets

	2015 Capital Required *AED'000*	2014 Capital Required *AED'000*
Interest rate risk	**9,474**	8,953
Equity position risk	**-**	-
Foreign exchange risk	**129**	115
Commodity risk	**-**	-
Options risk	**-**	-
Total Capital Requirement	**9,603**	9,068
Risk Weighted Assets (Capital requirement divided by 12%)	**80,023**	75,568

2. Interest Rate Risk

The Bank has nominal Interest Rate Risk on its Trading Book, as shown above.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement. There is no material impact on the Bank's equity.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2015, including the effect of hedging instruments.

	2015		*2014*	
	Change in basis points	**Sensitivity of Interest Income *AED'000***	Change in basis points	Sensitivity of Interest Income *AED'000*
All currencies	**+200**	**61,680**	+200	24,980
All currencies	**-200**	**(61,680)**	-200	(24,980)

The interest rate sensitivity set out above relates primarily to the US Dollar as the Bank does not have any significant net exposure for non-trading floating rate financial assets and financial liabilities denominated in other currencies.

3. Equity Position Risk

The Bank has no Equity Position on its Trading Book, hence Capital required is nil. However, there are a few investments in its banking book under available for sale category. For details please refer to Note 12 "Investments" of Notes to the Financial Statements at 31 December 2015.

4. Foreign Exchange Risk

The amount shown above, represents Foreign Exchange Risk on both banking and trading books. Since the AED is pegged to the USD, positions in USD and other GCC currencies pegged to the USD are excluded. For more details please refer to Note 23 "Risk Management – Currency Risk" of the Notes to the Financial Statements at 31 December 2015.

D. MARKET RISK UNDER STANDARDISED APPROACH *(continued)*

5. Options Risk

The Bank's exposure in Options bought and sold are perfectly matched; hence there is no capital charge on such positions.

6. Revaluations Gains / (Losses) During The Year

The Bank accounts for changes in fair values of Available for sale investments (both debt and equity) and cash flow hedges through Equity. Details of such charges are given in Note 19 "Cumulative Changes in Fair Values" of the Notes to the Financial Statements at 31 December 2015.

Gains / (losses) due to changes in fair values added to / (deducted from) Tier 1 / Tier 2 Capital are as follows:

	2015 AED'000	2014 AED'000
Amount added to / (deducted from) in Tier 1 capital	**-**	-
Amount added to / (deducted from) in Tier 2 capital	**(109,866)**	(66,893)
Total	**(109,866)**	(66,893)

E. OPERATIONAL RISK – BASIC INDICATOR APPROACH

Computation of Capital Charge and Risk Weighted Assets equivalent for Operational Risk is as follows:

		2015 AED'000		2014 AED'000
Gross Income (including Interest in suspense)	**2013**	**1,050,593**	2012	772,173
	2014	**1,376,855**	2013	1,050,593
	2015	**1,218,979**	2014	1,376,855
		3,646,427		3,199,621
3-year average		**1,215,476**		1,066,540
Beta factor		**15%**		15%
Capital requirement before applying National Discretion		**182,321**		159,981
UAE National Discretion Factor		**1.5**		1.5
Capital requirement after applying National Discretion		**273,482**		239,972
Risk Weighted Assets equivalent (Capital requirement divided by 12 %)		**2,279,017**		1,999,763