البنك العربي المتحد

UNITED ARAB BANK

Annual Report

2016

UAB.AE

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

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

BRANCHES

Head Office

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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

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

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

Dear Shareholders,

It is my honor on behalf of the Board of Directors to present United Arab Bank's 2016 Annual Report which reflects that the new transformation strategy the Board adopted has helped the Bank enhance its performance despite the major challenges and difficulties we faced in the previous period.

We are more confident than ever in our ability to grow and develop our business, which is built on a firm strategy and continuous commitment to provide distinguished banking services. We are also committed to implementing the highest governance standards in our industry, as well as adopting transparent work mechanisms. This will enable us to continue realizing best returns on investment for our shareholders and better utilization of our services and products to ensure we guarantee meeting our clients' needs.

United Arab Bank is committed to following and implementing the directives of the UAE's wise leadership with regard to increasing Emiratization efforts, which we have succeeded in throughout the years. We are also committed to executing the strategy of the Central Bank of the United Arab Emirates regarding the Emiratization across the banking sector.

I would like to express our deepest appreciation for our shareholders, clients, and partners for their support. I must also thank the members of the board, senior management, and employees for their dedicated work and efforts which were key enablers of success.

I would also like to take this opportunity to extend the utmost gratitude and thanks of the UAB Board to the leadership in the United Arab Emirates for the unlimited support to the national economy, and to the Central Bank of the United Arab Emirates for its faithful efforts in developing our sector. In this context, I am honored to express my gratitude and thanks for the ambitious vision and wise leadership of H.H. Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE; H.H. Sheikh Mohammed bin Rashid Al Maktoum, Vice President, Prime Minister, and Ruler of Dubai; H.H. Mohammed bin Zayed Al Nahyan, Abu Dhabi Crown Prince, and Deputy Supreme Commander of the UAE Armed Forces, and H.H. Dr. Sheikh Sultan bin Mohammed Al Qasimi, Member of the Supreme Council and Ruler of Sharjah.

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

MESSAGE FROM THE ACTING CHIEF EXECUTIVE OFFICER

Samer Tamimi
Acting Chief Executive Officer

Dear Shareholders,

2016 was a year of transformation for United Arab Bank. We took some serious actions towards restructuring our organization in order to enhance our service offerings and improve overall performance. The transformation strategy was based on four pillars: elimination of high risk non-core portfolios, rationalization of expenses, direct supervision of risk assessment and management frameworks, and capitalizing on the Bank's main strengths.
UAB continues to follow best practice to enhance its quality services and offerings. We also remain faithful to supporting our corporate client base of all sizes, while developing relations and communication channels with our individual customers.

By virtue of this strategy, the bank achieved a remarkable loan-to-deposit ratio (LTD) of 86% in 2016, compared to 93% in 2015. The bank is now in the final stages of a capital increase, which will enhance capital adequacy ratio to above 14%.

In 2016, and despite their higher yields, the Bank run-off its high-risk non-core portfolios by more than 73% compared to 2015. Thanks to the considerable focus on cross-selling in the Corporate Banking department, and the keenness on opportunity utilization via integrated services, the Bank continued to present strong performance in net fees, commissions, and other income.

A more flexible financial institution:

We are confident that the restructuring process and the updated business plan will help utilize UAB's traditional points of strength, namely corporate finance in the UAE, capitalizing on the Bank's ability to respond to changes and challenges. The process streamlining which resulted in the rationalization of the branch network played an important role in reducing expenses. UAB has achieved great progress in this domain, which allowed the bank to absorb higher provisions for credit losses in order to address legacy issues.

In 2017 we will continue to work on the rationalization of expenditure and operational costs, in line with the Bank's pre-defined plan. We will increase the volume of ancillary businesses and continue to reduce risks from our portfolio via stringent governance frameworks and risk management processes.

Samer Tamimi
Acting Chief Executive Officer

BOARD OF DIRECTORS

Membership of the Board of Directors as at 31st December 2016

H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
CHAIRMAN OF UAB

Re-elected to the Board in 2015 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 Governance and Remuneration Committee
Member – Board Credit Committee

Re-elected to the Board in 2015 for a term of 3 years

Mr. Alfardan is serving as Vice Chairman of the Board of Directors and represents The Commercial Bank (Q.S.C.) the largest corporate shareholder of United Arab Bank.

Mr. Alfardan holds a Bachelor's Degree in Business Administration and a Master's Degree in Finance from Webster University in Geneva, Switzerland.

- Chairman of the Board of Directors at Alternatif Bank in Turkey
- Board Member – The Commercial Bank (Q.S.C.)
- President and CEO of Alfardan Group and its subsidiaries
- Board Member – Qatar Red Crescent

External Board Appointments:

Sheikh Abdullah Bin Ali Bin Jabor Al Thani

DIRECTOR

Member - Board Risk Committee

Re-elected to the Board in 2015 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 (Q.S.C.), the largest corporate shareholder of UAB. He was re-appointed in 2011 and 2015 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

Chairman - Board Credit Committee
Member - Board Governance and Remuneration Committee

Re-elected to the Board in 2015 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. Mohamed Abdulbaki Mohamed

DIRECTOR

Chairman - Board Risk Committee
Member - Board Audit Committee

Re-elected to the Board in 2015 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

Member – Board Credit Committee
Member – Board Governance and Remuneration Committee

Re-elected to the Board in 2015 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. Fahad Badar

DIRECTOR

Member - Board Credit Committee
Member – Board Governance and Remuneration Committee

Appointed to the Board in July 2016

Mr. Fahad Badar is a member of the Bank's Board of Directors and recently joined in July 2016.

Mr. Badar's career at The Commercial Bank (Q.S.C.) spans over 17 years. Prior to his current role as Executive General Manager, International Banking, Mr. Badar held a number of key roles in International Banking, the Government and Public Sector Relations and the Wholesale Banking Divisions.

Mr. Badar holds an MBA from Durham University, United Kingdom and a Bachelors of Arts degree in Banking & Finance from the University of Wales

Other External Appointments

- Executive General Manager, International Banking – The Commercial Bank (Q.S.C.)
- Board Member – Alternatif Bank (ABank), Turkey
- Board Member – ALease Board, Turkey
- Board Member – National Bank of Oman (NBO), Oman

Appointed to the Board in July 2016

Mr. Gerard Rizk
DIRECTOR

Member - Board Risk Committee
Member – Board Audit Committee

Mr. Rizk is a member of the Bank's Board of Directors and recently joined in July 2016.

Mr. Rizk has extensive experience in the banking sector and has served as the Group Chief Risk Officer of BLOM Bank Sal Lebanon. He has worked extensively in European and Middle Eastern markets from both a commercial and investment banking perspective for institutions such as The Commercial Bank (Q.S.C.), Bank Audi, Nomura International and BLOM Invest Bank.

Mr Rizk holds a Bachelor of Science degree from the University of Salford in the United Kingdom.

Other External Appointments
- Board Member – Alternatif Bank (ABank), Turkey

Re-elected to the Board in 2015 for a term of 3 years

Ms. Najla Al Midfa
DIRECTOR

Chairperson - Board Audit Committee
Member – Board Risk Committee

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.

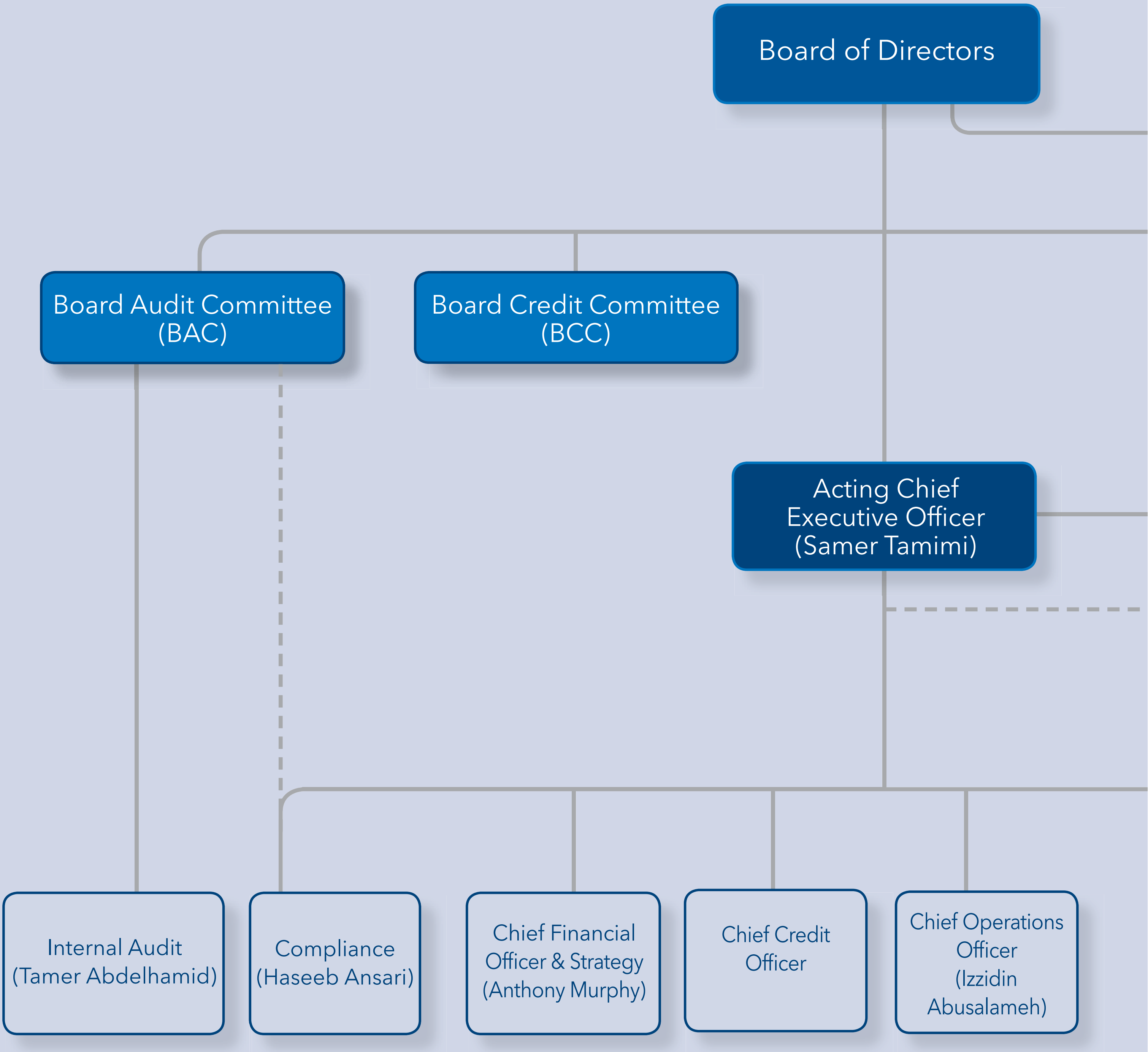
Ms. Al Midfa holds a Bachelor of Science with honors from the University of Bath in the UK, and an MBA from Stanford University.

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

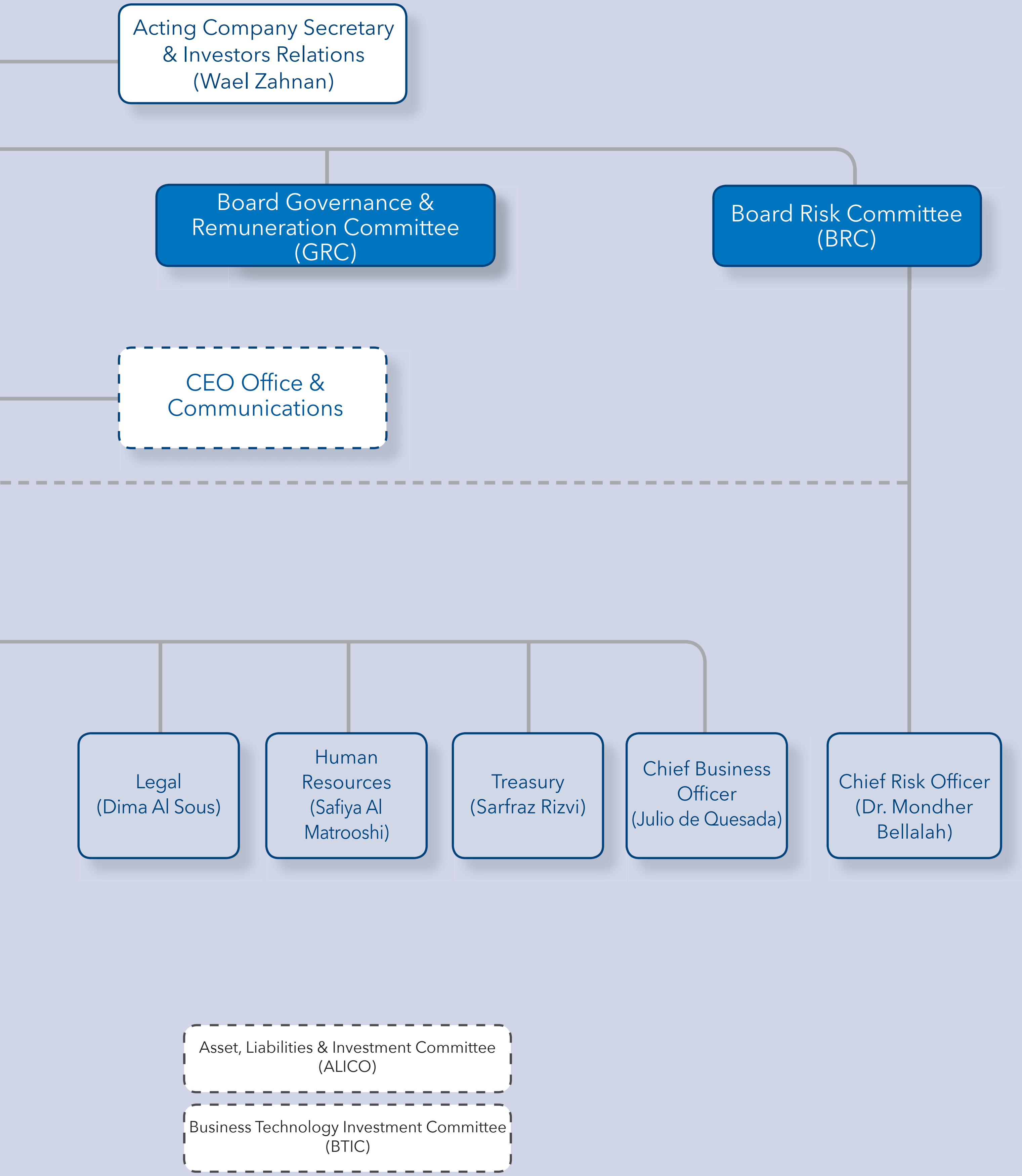

UNITED ARAB BANK
2.99%
Home Loans
designed for you
BUILD YOUR FUTURE

ORGANIZATIONAL CHART



Management Committees (formed by the CEO):

- Executive Management Committee (EXCOM)
- General Management Credit Committee (GMCC)
- General Management Risk Committee (GMRC)
- Special Assets Committee (SAC)


Acting Company Secretary & Investors Relations (Wael Zahnan)
Board Governance & Remuneration Committee (GRC)
Board Risk Committee (BRC)
CEO Office & Communications
Legal (Dima Al Sous)
Human Resources (Safiya Al Matrooshi)
Treasury (Sarfraz Rizvi)
Chief Business Officer (Julio de Quesada)
Chief Risk Officer (Dr. Mondher Bellalah)
Asset, Liabilities & Investment Committee (ALICO)
Business Technology Investment Committee (BTIC)

OVERVIEW

2016 represented a year of transition for UAB as the Bank continued its journey to become a safer, stronger and sustainable Bank as part of the Transformation Strategy adopted in the latter half of 2015. The Board and Management Team remain fully committed in completing the Journey and ultimately generate sustainable returns for shareholders over the medium term.

Central to this Transformation Strategy were 4 key pillars: pro-actively run-down higher risk non-core portfolios; reduce costs; enhance the Bank's risk and control frameworks; and strengthen key banking fundamentals. Against each of these milestones UAB has made significant progress, thus enabling the Bank to absorb further provisions to address legacy issues throughout the year.

The Bank has continued to record significant progress in proactively deleveraging its 'non-core' higher risk portfolios. In 2017 and beyond, this will remain a significant element of the Bank's transformation with recycled Risk Weighted Assets utilized in order to unlock the full earning power of our core business units.

Operating Expenses for the year were 24% lower compared to prior year as the Bank captured the benefits associated with the comprehensive review and subsequent overhaul of its cost base completed in Q4 2015. With material savings across all key cost components the Bank will move into 2017 equipped with a streamlined model focused on supporting UAB's business activities.

2016 also saw the Bank delivering on other essential strategic milestones, including the appointments of both a new Chief Operating Officer and Chief Compliance Officer, with this recruitment finalizing all Level One roles to support the ongoing strategic journey. Further, in 2016 the Bank also successfully completed the 'insourcing' of relevant back office functions.

The importance UAB places on maintaining a robust liquidity profile is demonstrated by its consistent approach in managing both its Advances to Stable Resources and Eligible Liquid Asset Ratios comfortably above Central Bank of UAE thresholds. Combined with Capital Adequacy, Funding and Liquidity represent the fundamentals of a solid Bank and are therefore placed at the center of our transformation strategy.

Although Capital Adequacy Ratio as at 31st December 2016 (13.1%) is satisfactorily above the regulatory requirement of 12%, the Bank is in advanced stages of issuing an AT1 capital instrument with the aim to drawdown in 2017. This will ensure the Bank is adequately capitalized and possesses an additional buffer against the UAE Central Bank threshold.

UAB's prudent provisioning approach since the implementation of transformation strategy impacted its FY 2016 financial results. Consequently, the Bank reported a Net Loss of AED 523 million for the twelve months ending 31st December 2016. However, this decisive action enabled UAB to retain a robust risk buffer, with Non-performing Loan Coverage Ratio of 120% and Overall Coverage Ratio (including collateral pledged against the underlying facilities) of 151%.

As we move into 2017, UAB is committed to following through its strategy with the ongoing support and assistance of our alliance partner, The Commercial Bank. UAB has been able to navigate through this challenging period and moving forward the Bank will continue to focus on its core business activities to deliver value across the medium term for its shareholders.

UAB STRAGETIC FOCUS

OUR AIM

Become a safer and stronger Bank generating sustainable returns for Shareholders

OUR OPERATING MODEL

CORE OFFERING	COMPLIMENTED BY
Corporate & Institutional Banking	Treasury & Capital Markets
	Retail Banking

Efficient Support Functions

OUR STRATEGIC PRIORITIES

Grow 'Core' Business	Optimal Capital Management	Enhancing Enterprise Risk Management
Deleveraging higher risk 'Non-Core' portfolios	Prudent Liquidity and Funding Profile	Deepening Customer Relationships / capturing cross-sales

Corporate & Institutional Banking

2016 continued to encounter persistent headwinds in terms of the challenging business environment and cross-bank corporate lending arising from credit and liquidity risks. UAB has therefore implemented a multifaceted and focused strategy within CIB.

By fostering an engaging work environment through incentive-based initiatives alongside employee recognition for excellent performance, UAB seeks to attract high-performing and committed team members from leading institutions across the market. Within the framework of universal benchmarking regarding revenue and performance, a specialized team was on-boarded and a business / revenue model tailored to cross selling and income quality was communicated throughout the unit. To facilitate and grow fee-based revenue, a Treasury Marketing Unit (TMU) was established within the frontline, yielding commendable results. Further, in order to track the relationship between product and relationship earnings, a revenue recognition matrix was created; with product (cash management; supply chain finance; treasury etc.) on one axis and relationship on the other. Additionally, the joint calling across product specialists and relationship managers was stipulated and monitored on a regular basis, with the strategy experiencing solid traction in 2016 with CIB recording healthy Y-o-Y growth in Non-interest Income and a commendable improvement in its Fee : Total Income Ratio.

UAB continues to actively de-risk its portfolio and establish a robust structuring and risk monitoring framework so as to better manage risks across the business cycle. With a steadfast focus on containing credit losses, CIB worked closely with the newly established Corporate & Retail Recovery Unit (CRRU), to ensure early recognition of stress and a seamless transfer of relationships to ensure appropriate attention to recovery / legal recourse. In doing so, CIB was instrumental in initiating early action and restructuring to ensure an absence of a lacuna in the process of handover.

Whilst it was imperative to focus on portfolio health, in parallel it was of equal importance to keep the revenue engine churning. Thus, during the year, CIB established a commendable number of new relationships in addition to optimizing the utilization of a healthy portfolio so as to maintain asset levels and continue generating quality earnings. New business was booked in line with robust underwriting standards to ensure a healthy risk and reward balance alongside the adherence to the Moody's Risk Calculator, whilst margins reflected a strict commitment to risk based pricing. In conjunction with all frontline and support areas, processes were re-engineered and updated service channels were provided so as to ensure best-in-class time to market (TTM) and client delivery.

To ensure the unit remains self funded, a dedicated Liabilities team was established in 2016 to source low cost corporate CASA accounts and aid the overall management of cost of funds, whilst reducing reliance on higher cost Term Deposits.

Finally, across the year, CIB worked closely with the newly establish Chief Operating Officer functions across a number of initiatives including launching the online platform, with more than 3,000 clients transferred onto the transaction module, whilst the unit also supported the implementation of both the Loan Origination and Supply Chain / Factoring systems.

CIB remains committed to creating a healthy corporate culture where employees can maximize their potential within an environment that promotes operational and credit excellence.

Retail Banking

In response to a challenging economic year, retail banking proactively focused on four key areas:

• De-risking and deleveraging: The 'non-core' self employed loan portfolio has been materially reduced across 2016 has part of the Bank's broader journey to a lower risk and sustainable business model.

• Distinguishing propositions through digital platforms: an enhanced Retail Online and Mobile Banking platform was launched in Q1 2016 to improve customer experience.
Credit Bureau: UAB continues to diligently utilize the Credit Bureau when underwriting all retail products which will subsequently deliver long-term benefits.

• Products and Services: UAB remains committed to its customer - centric approach by ensuring the Bank understands its customers' lifestyles and satisfies their financial needs.

• Going forward, Retail will continue to focus on introducing innovative products to meet the evolving needs of the individual, utilizing the Banks full-service branch network and digital capabilities to improve customer experience and ultimately build stronger relationships.

Corporate & Retail Remedial Unit (CRRU)

CRRU was created as a standalone unit to manage customer relationships deemed non-core, specifically the Bank's higher risk SME and PLSE portfolios as well as those legacy CIB and exposures that are outside the revised risk appetite framework.

The primary function of CRRU is to restore customers to an acceptable credit profile whilst minimizing losses to the Bank, and thereby protect the Bank's capital. The desired goal is to enable the customer to return to financial health and restore a normal banking relationship.

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 that our customers expect. The Bank's Shari'ah Supervisory Board has continued to provide guidance and ensure business adherence to the designated rules, regulations, and principles of Shari'ah and the Central Bank of UAE (CBUAE), which also regulates Islamic Banking.

Going forward IB will continue to be fully aligned with the Bank's overarching strategy as it develops services to cater to the needs of UAB's core customers and enhance the overall customer experience.

Treasury & Capital Markets

TCM supports the Bank in strengthening its relationships with corporate and high-net-worth individuals (HNWIs), through the provision of a wide, customized range of products and services that cater to their specific needs. This includes interest rate and currency derivatives as well as possessing dedicated Money Market, FX and Derivative trading desks to support the Bank's overall revenue generating capabilities.

As part of Bank's Asset & Liability Management activities, TCM provides a stable and diversified source of funding for the Bank. This effective funding management has resulted in controlling our cost of funds whilst strengthening the Bank's funding and liquidity profiles. Customer Deposits have and will continue to represent the Bank's key source of funds as evidenced through a stable concentration in Total Liabilities, whilst the Bank's Loan : Deposit Ratio improved to 86% as at 31st December 2016.

To supplement effective liquidity management, the Bank has continued to place surplus funds in High Quality Liquid Assets, with the Investment Portfolio recording an uplift of 29% vs. prior year to close at AED3.3 billion, aiding overall interest income, with the portfolio primarily comprising fixed income securities, with a mix of government, semi-government, corporate bonds and Sukuks from across the UAE and wider GCC.

In line with the Bank's future strategy, TCM will continue to support the needs of the Bank's core business functions with an additional emphasis on Treasury Sales to increase wallet share on corporate activities, whilst further increasing and diversifying UAB's investment activities.

Chief Operating Officer (COO) Functional Overview

Technology

- Automation has been the mantra of 2016 with strategic alignment to extract the maximum business value of IT.
- Our key investment areas in 2016 have involved the introduction of two new internet banking channels for our corporate and retail customer base.
- Cyber security has been a top priority to provide customers with enhanced levels of security to ensure safe banking and zero compromise.
- Consolidating the diverse and dispersed consortium of applications.
- Governance and funding to align IT capabilities and spending with business strategy.
- Operational Efficiency
- Completed the insourcing of operations, introducing more constructive control in the system.
- Focus on well-defined workflows to ensure a seamless flow between branches and centralized ops units to avoid delays and to provide an exceptional customer experience.
- Utilizes the Electronic Document Management System (EDMS) in line with the objective to become a digital/ paperless organization.
- Continuous review of the Standard Operating Procedures (SOP), to ensure content enhancement and a well-defined set of roles and responsibilities.

Best-in-Class Customer Experience

- Customer empowerment – in 2016, the team has been working towards empowering customers by adding the capability to track services such as: service requests, instant receipts of acknowledgment, unique request reference numbers, and automatic notifications when process milestones completed.
- Continue working towards the swift resolution of customer complaints without a delay in service.
- Seek to ensure customer satisfaction through adjusting the operating model to address the needs of the customer during the first interaction.
- Continue to work towards UAB's objective to become paperless by automating service applications, e-guidance , e-statements, and instant notifications
- Augment channel functionalities with the highest levels of security (online banking, IVR, ATM, Call Center); and monitor the self-service ratio of the customers.

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.

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 2016 Board has developed an implementation plan to further enhance its corporate governance framework through an independent consultant who issued an assessment report addressed to the Board.

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 2015, beginning their respective three-year term of office effective January 1, 2015. 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 2016

The Board of Directors met 7 times in 2016 and received information in between meetings on regular basis from the Board and Management Committees in relation to the Bank's business developments.

2016 Board Meetings Calendar:

24th January 2016	Board of Directors meeting to approve the 2015 end of year results.
14th March 2016	Board of Directors meeting to approve miscellaneous items on the agenda.
20th April 2016	Board meeting to approve Q1 2016 financial results and the YTD financial performance.
30th May 2016	Board of Directors meeting to approve miscellaneous items on the agenda.
17th July 2016	Board meeting to approve Q2 2016 financial results and the YTD financial performance.
23rd October 2016	Board meeting to approve Q3 2016 financial results and the YTD financial performance.
7th December 2016	Board of Directors meeting to review of YTD financial and business performance and 2017 budget approval.

BOARD MEMBER	BOD	EXCOB	GRC*	BAC	BCC	BRC
Sheikh Faisal Bin Sultan Bin Salem Al Qassimi	C					
Mr. Omar Hussain Alfardan	VC	C	C		M	
Sheikh Abdullah Bin Ali Bin Jabor Al Thani	M			M		M
Sheikh Mohammed Bin Faisal Al Qassimi	M	M	M		C	
Mr. Mohamed Abdulbaki Mohamed	M	M		M		C
Mr. Ahmed Mohamad Bakheet Khalfan	M		M		M	
Ms. Najla Al Midfa	M	M		C		M
Mr. Fahad Badar (1)	M		M		M	
Mr. Gerard Rizk (1)	M			M		M
Mr. Nicholas Coleman (2)	M	M			M	
Mr. Andrew C. Stevens (3)	M			M	M	M
Number of Meetings in 2016	7	2	2	8	14	4

(1) Appointed to the Board in July 2016
(2) Served on the Board until March 2016
(3) Served on the Board until in April 2016
* The EXCOB Committee was replaced by the GRC Committee as of April 2016.

C: Chairman
M: Member
BOD: Board of Directors
EXCOB: Board Executive Committee
GRC: Board Governance & Remuneration 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 2016, the committee held 2 meetings, prior to being replaced by the GRC in April 2016.

Board Governance & Remuneration Committee ("GRC")

The GRC acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles.

The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements. GRC shall provide recommendations to the Board for new Board and Senior Management members, while ensuring that the roles and responsibilities of Board members are in line with the regulatory requirements. GRC will also provide support and directions to the Board in terms of strategic and budgetary initiatives, plans and decisions.

GRC meets at least 4 times a year. In 2016, the committee held 2 meetings since it was created in April 2016.

BOARD AUDIT COMMITTEE ("BAC")

BAC is responsible for managing the financial reporting, compliance and internal audit reviews of the Bank and, in doing so, may exercise all the powers delegated by the Board, subject to any relevant laws and regulations. The internal audit function has a direct reporting line to the BAC.

BAC meets at least 4 times a year. In 2016, the committee held 8 meetings.

BOARD CREDIT COMMITTEE ("BCC")

The BCC provides leadership for the Bank within a framework of prudent and effective controls which enables robust credit control.

The BCC is responsible for evaluating and granting counterparty credit facilities and approving the Bank's investment activities within authorized limits and, in doing so, exercise all the powers delegated by the Board, subject to any relevant laws and regulations.

BCC meets on an ad hoc basis. In 2016, the committee held 14 meetings.

BOARD RISK COMMITTEE ("BRC")

The BRC monitors and manages all aspects of enterprise risk management including, but not restricted to, credit risk; market risk; operational risk; legal risk; regulatory risk; liquidity risk; financial risk. Moreover, the BRC reviews and approves the policies on all risk issues and maintains oversight of all Bank risks through reports received from the General Management Risk Committee.

BRC meets at least 4 times a year. In 2016, the committee held 4 meetings.

Performance Evaluation of Board and Board Committees

GRC reviews, on an annual basis, the performance of the Board against its Terms of Reference and reports accordingly to the Board of Directors.

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 BTIC is a committee established by the CEO to align technology initiatives with the Bank's business strategy. It aims at setting UAB strategic technology direction and monitor progress for the efficient and effective operations of the Bank's systems, aligned to business needs. The Committee ensures all IT related projects track against project plans, and deliver benefits and continuously improve services and solutions delivered to the business with consideration to any Group and industry best practice.

BTIC meets at least 4 times a year.

ASSET, LIABILITIES AND INVESTMENT COMMITTEE ("ALICO")

ALICO is the decision-making body related to balance sheet structure, funding, pricing, hedging, investment, and setting limits related to the overall ALM function of the Bank; and the has the mandate for recommending for approval or itself approving various functions/transactions mention under the responsibilities.

ALICO meets at least six times a year.

SPECIAL ASSETS COMMITTEE ("SAC")

The Special Assets Committee is the highest management level authority on both 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, overall value creation and its long term success.

The role of risk management is to ensure that the Bank's risk-related decisions are consistent with the Bank's strategy (in line with the approved risk appetite framework) and 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 viewed as fundamental to the success of the Bank and is recognized as a key element in UAB's overall approach to achieving its goals.

Risk governance is predicated on the 'Three Lines of Defence' model. Within this model, Business Units (first line) originate and manage risks while Risk Management and other control functions (second line) provide independent oversight and objective challenge to the first line, in addition to monitoring and controlling risk. Internal Audit (third line) provides assurance that policies, procedures and controls are achieved by the other lines of defence.

The Bank has an established risk governance structure with an active and engaged Board of Directors supported by experienced senior management and risk management teams that operate independently from the lines of business, with decision-making exercised through a number of Board and Executive Management Committees, including:

Board of Directors approves key risk management policies, limits and risk appetite statements, and ensures, either directly or through the committees, that decision making is aligned with the Bank's strategies and risk appetite framework. Moreover, detailed reports are submitted to the Board periodically on the Bank's risk profile and portfolio.
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 Risk Committee. The CRO heads the risk management function and also has direct access to the Board.

Risk Management Team, 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 Bank continuously strengthens its risk management practices, policies and procedures 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, system failure or external events all fall within its remit.

Operational losses are mitigated as follows:

- 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 possesses a well-defined, independent operational risk framework that utilizes scorecards, heat maps, risk control, and, among others, self-assessment models. The Operational Risk team reports directly to the CRO, with oversight provided by the Board Risk Committee.Risk provided by the Board Risk Committee.

COMPLIANCE

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

The primary responsibility of the Compliance function is to provide consultative support to the Senior Management in effectively mitigating and managing the compliance risks faced by the Bank.

The Compliance function provides assurance to the Executive Team and the Board that the expectations of the regulator (CBUAE), are fully satisfied (along with relevant international regulations) and that the risk of the Bank being used to facilitate financial crime is minimized. The Compliance function operates independently of the business (as a second line of defense) and ensures continuous visibility to the Executive Team and Board of Directors respectively.

UAB remains fully cognizant as well as vigilant towards such local and international risks vis-à-vis its banking activities and services. It is extremely noteworthy that there have been significant investments and enhancements made to the Bank's Compliance function in line with the dynamic controls and governance requirements. The cost of Compliance has increased as a consequence of the new risk spectrum across the banking industry. As part of this, UAB has ensured a significant increase in the bench strength of the Compliance personnel (headcount related to AML/KYC, Sanctions and Regulatory Compliance) commensurate with the risk / business footprint. In parallel, UAB has also enhanced its system capability, particularly from the monitoring and surveillance standpoint (AML and Sanctions screening), along with a robust policy framework. Another noticeable development is the induction of the new Chief Compliance Officer who has recently joined the Bank, which has led towards furthering the positive impact on our relationship with the CBUAE as well as the member bank UAE Banks Federation (UBF).

Going forward, our trajectory remains positive and we have begun to deploy an extensive firm-wide Compliance Enhancement Program, which will be rendered effective in 2017.

LEGAL

The Legal Team provides support to the Bank with the overaching objective to provide advice and guidance regarding various operational activities.

- Recommend 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 to which the Bank will become party to, including (but not limited to): Global Master Repurchase Agreements (GMRAs), International Swap and Derivative Agreements (ISDAs), and Islamic Banking Structures.

INTERNAL AUDIT (IAD)

IAD represents the Bank's third line of defense, supporting the Management and Board of Directors through the provision of independent evaluations and reasonable assurance regarding the levels of effectiveness and efficiency of corporate governance, business processes, internal controls and risk management.

Independence of IAD is ensured through a direct report line to the Board via the Board Audit Committee (BAC), who approves the internal audit organizational chart, charter, manual, plan and methodology.

In 2016 the internal audit scope was extended across all key business processes and support functions to cover key risky areas highlighted in the risk assessment in order to: provide management with added-value recommendations to strengthen the internal control environment; support achieving the UAB's strategic objectives; ensure compliance with regulatory requirements; and to enhance the corporate governance structure.

The 2016 internal audit plan was achieved in full given the constructive support from the Bank's Senior Management and Board of Directors, with the majority of the highlighted audit recommendations implemented. In addition, internal audit management applied a new audit approach which is based on data analysis, continuous auditing and applying the latest audit methodology in conducting the audit assignments.

HUMAN RESOURCES

2016 represented another year where UAB's reliance on the quality of its human capital helped support the Bank's overall performance.

During the year, the bank has continued to develop and invest in the talent and capabilities of UAE Nationals through initiatives such as Reyadah, the UAB's UAE National Career Development program; in which the Bank not only recruits talented individuals, but also fosters an environment where aspiring UAE Nationals receive the required training and support to build a meaningful career. Looking foward, these efforts will contribute to the Bank's medium term success.

As a part of the Reyadah program, 2016 saw 15 of the Bank's high-potential UAE National employees selected to qualify for a structured 12-month program comprised of technical training, leadership development and focused coaching plans to ensure that such individuals develop the necessary skillset to progress into leadership roles in the near future.

Recognizing its broader responsibility to contribute to the UAE's economy and to the development of its human capital, the Bank continues to build on its close relationships with a range of higher education institutions and by participating in a number of public recruitment events.

SOCIAL RESPONSIBILITY

Social responsibility has and always will be a pillar of UAB's activities and as such the Bank will continue to build upon its initiatives to give back to the community where our people and customers both live and work.
UAB is committed to serving the wider UAE society through the participation, support and sponsorship of the following initiatives:

- Main sponsor of the 27th Annual Al Amal Camp in Sharjah, organized by the Sharjah City for Humanitarian Services (SCHS), which aims to provide the participating special needs children with a chance to create new friendships, to develop social kills, and to encourage them to rely on themselves and enhance their self-esteem.
- Platinum sponsorship of the Annual Jordanian Business Council (JBC) Conference in Dubai.
- Main sponsor of the 4-Jacks UAE National Day Bridge Festival, organized by the 4-Jacks organizing committee aimed to support this initiative in the region, and
- Main sponsor of the Asa'ad Sha'ab event that celebrate the UAE's 45th National Day.

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.

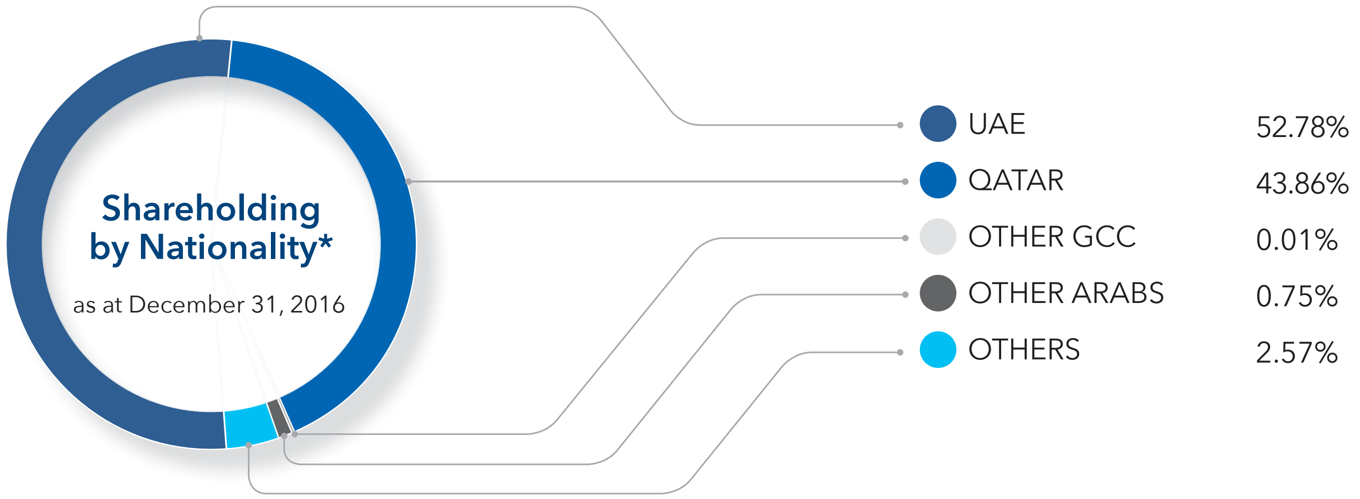
Shareholders may pass a special resolution on items other than those falling under the remit of the AGM, as stipulated under the Articles of Association of the Bank.

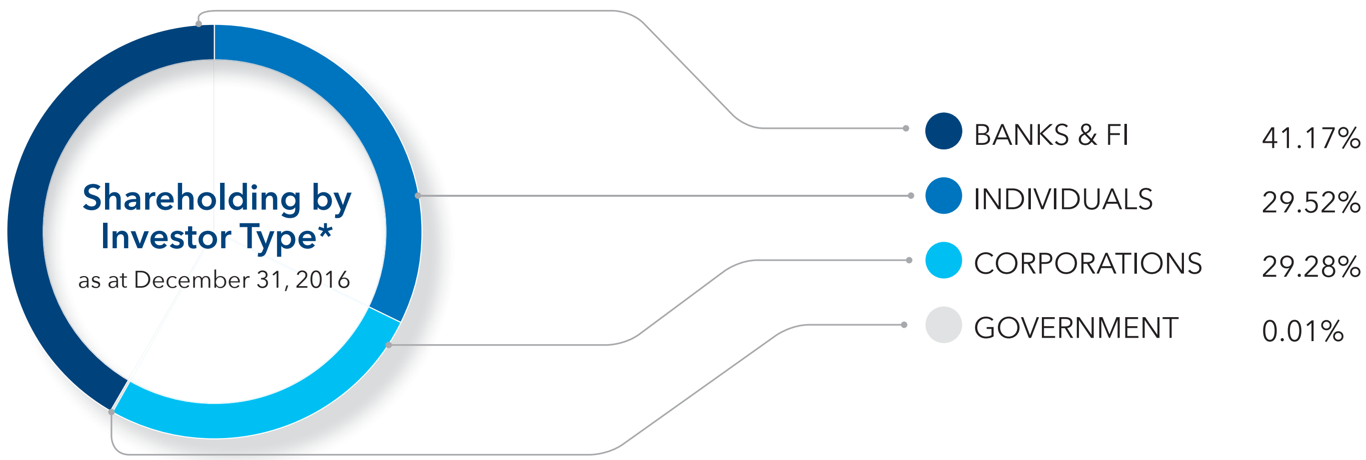
The 2016 AGA took place on March 14th, 2016 during which the amendment of the Articles of Association was approved.

Major Shareholders

List of major Shareholders who owned 5% and above of the share capital as at December 31st, 2016:

The Commercial Bank (Q.S.C.)	40.00%
Sheikh Faisal Bin Sultan Bin Salem Al Qassimi	8.31%
GIBCA Limited Company	5.64%
Al Majed Investment Company (WLL)	5.42%
Jumaa Al Majed Abdullah Muhairi	5.31%





* Total might not equal 100% due to rounding

DIRECTORS REPORT

On behalf of the Board of Directors of United Arab Bank (UAB), I am privileged to present to our shareholders our Annual Report for the year ended 31st December 2016.

Notably, 2016 was a year of transition for UAB as the Bank embarked on its journey to become a safer, stronger and sustainable Bank. Central to this Transformation Strategy were four key pillars: pro-actively deleverage higher risk non-core portfolios; reduce costs; enhance the Bank's risk and control frameworks; and strengthen key banking fundamentals.

Whilst the last 18 months have clearly been a challenging period for the Bank much has been achieved. We have substantially strengthened our Balance Sheet, focused on our core activities, de-risked the business and captured material cost savings across the successful execution of our strategy.

In 2016, the Bank has recognized Provisions for credit losses of **AED1,011m** which include a material one-time charge necessary to address legacy issues; consequently, UAB's full year financial results have been impacted with the Bank reporting a Net Loss of **AED523m**.

The Board and Management Team remain fully committed in completing the Transformation Strategy and ultimately generate sustainable returns for shareholders over the medium term.

With the enduring support and assistance of our alliance partner, The Commercial Bank, we are confident that we will continue to support the UAE economy as it continues on its prosperity.

The Board of Directors recommend the following appropriations of profit for the year ended 31 December 2016, subject to the approval of the Central Bank of UAE:

	2015 Restated	*2016*
Opening balance in Retained Earnings at 1st January	**881,612**	**354,794**
Loss for the year	(183,096)	(522,691)
Transfers from revaluation reserve	36	41
Dividend distributed relating to 2014	(343,758)	0
Balance available for appropriation	**354,794**	**(167,856)**
Proposed appropriation of profit		
Transfer to Special Reserve	0	0
Transfer to Statutory Reserve	0	0
Director's remuneration	0	0
Closing balance in Retained Earnings at 31st December	**354,794**	**(167,856)**

After the proposed appropriation of profit, and subject to the General Assembly's approval, total Shareholder's Funds will decrease to AED2,087 million at 31st December 2016 compared with AED2,570 million at the end of 2015 (Restated). The Directors propose no dividend award for the year 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 for their patronage, the top management and the employees for their commitment and dedication, and to the Central Bank of the UAE for regulating and supporting the UAE banking sector.

In conclusion, we wish to express our appreciation to the President of the United Arab Emirates, His Highness Sheikh Khalifa Bin Zayed Al Nahyan for his leadership, vision and support. We also wish to thank His Highness Sheikh Mohammed Bin Rashid Al Maktoum, UAE Vice President, Prime Minister and Ruler of Dubai, His Highness Sheikh Dr. Sultan Bin Mohammed Al Qassimi, 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 support and guidance.

Faisal Bin Sultan Bin Salem Al Qassimi
Chairman
20th February 2017

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Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of United Arab Bank P.J.S.C (the "Bank") and its subsidiary (together referred to as the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements section of our report.*

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF UNITED ARAB BANK P.J.S.C.

Our audit approach

Overview

Key Audit Matters	•	Impairment of credit facilities
	•	Restatement of hedge ineffectiveness identified in prior years

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on consolidated the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key Audit Matters

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

Impairment of credit facilities

Impairment allowances represent management's best estimate of the losses incurred within the credit portfolio at the balance sheet date. They are calculated on a collective basis for portfolios of performing loans of a similar nature and on an individual basis for non-performing loans. The calculation of both collective and individual impairment allowances is inherently judgemental.

The calculation of collective provision is based on statistical models which approximate the impact of current economic and credit conditions on portfolios of similar loans. The inputs to these models, including probabilities of default, loss given default, are subject to management judgement.

For specific impairments, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to that loan.

The Bank has reassessed and increased its impairment provisions during the year by applying incremental provisions and judgemental overlays, specifically to sectors impacted by continuing macro economic stress caused by the decline in oil prices and contraction in liquidity. The Bank has consequently recognised significant impairment losses of AED 1,011 million in 2016 (AED 888 million in 2015), in order to establish additional provisions against certain non-core higher risk portfolios which the Bank is in the process of liquidating.

We focused on this area because of the materiality of the credit portfolio and because management make subjective judgements over both timing of recognition of impairment and the estimation of the size of any impairment. Please refer to note 7 in the accompanying consolidated financial statements for additional details.

Restatement of hedge ineffectiveness identified in prior years

The Bank enters into interest rate swaps to hedge fair value interest rate risk arising on its fixed rate bonds portfolio classified as available-for-sale. In previous years the Bank assumed that the hedges were effective on the basis that critical terms of the hedging instrument and the hedged item matched and, accordingly, the Bank did not perform detailed hedge effectiveness testing.

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF UNITED ARAB BANK P.J.S.C.

During the current year, the Bank, with the assistance of an independent expert, performed hedge effectiveness tests for all its hedging relationships. These tests demonstrated that while the hedges met the required hedge accounting criteria, there were cumulative hedge ineffectiveness losses of AED 32 million related to previous years that had not been recognised in the statement of income.

Management have rectified the errors by restating the prior year financial information in the consolidated financial statements for the year ended 31 December 2016. Note 32 to the consolidated financial statements sets out the details of the adjustments to reduce retained earnings as at 31 December 2014 and to record an additional loss in the comparative consolidated statement of income for the year ended 31 December 2015.

We focused on this area due to the complexity and judgements involved in the hedge effectiveness testing and the requirement to restate prior year comparatives to recognise the losses arising from hedge ineffectiveness.

How our audit addressed the Key Audit Matter?

We assessed and tested the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over the identification of which credit facilities were impaired, particularly with respect to credit facilities in certain non-core higher risk portfolios, the data transfer from source systems to impairment models and model output to the general ledger, and the calculation of collective and specific impairment provisions.

In addition, we performed detailed testing on the collective impairment models used to calculate impairment. This testing included testing of the extraction of data used in the model, assessing the appropriateness of the assumptions used in the models and re-performance of the impairment calculations with the assistance from our valuation specialists.

Where impairment was individually calculated, we tested controls over the timely identification of potentially impaired loans, approval and booking of impairment losses.

We also tested a sample of credit facilities to ascertain whether the loss event (the point at which impairment is recognised) had been identified in a timely manner, particularly with respect to credit facilities in certain non-core higher risk portfolios.

We also tested the completeness of the customer accounts that are included in the specific impairment calculation, including how unidentified impairment (customers that have had a loss event that has not yet manifested itself in a missed payment or other indicator) and forbearance are taken account of.

Where impairment had been identified, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment on a sample basis, challenging the assumptions and comparing estimates to external evidence where available, and re-performed the impairment calculation.

We examined a sample of credit facilities which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate including the use of external evidence in respect of the relevant counterparties.

We examined the Bank's independent price verification process and reviewed its reasonableness by inspecting the inputs to the independent pricing system and substantively comparing the independent valuation reports to the derivative valuations provided by the counterparties.

We re-performed the hedge effectiveness test for a sample of hedging relationships and reviewed the hedge effectiveness test for the remaining relationships, both prospectively and retrospectively. We also ensured the competence of the management's expert involved in performing this test.

We tested compliance with the hedge accounting criteria under IAS 39 and we checked the computation and booking of the relevant hedge accounting entries, including ineffectiveness relating to the current period and each of the prior periods

We assessed whether the Group's disclosures included in note 32 properly meet the requirements of IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF UNITED ARAB BANK P.J.S.C.

Other information

Management is responsible for the other information. The other information comprises The Director's Report (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other matters

The consolidated financial statements of the Group as at and for the year ended 31 December 2015 were audited by another auditor, whose report dated 25 January 2016 expressed an unmodified audit opinion.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF UNITED ARAB BANK P.J.S.C.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF UNITED ARAB BANK P.J.S.C.

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 9 to the consolidated financial statements, the Group has not purchased or invested in any shares during the year ended 31 December 2016;

vi) note 27 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

(vii) note 25 to the consolidated financial statements discloses the social contributions made during the year; and

viii) 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 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2016.

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.

PricewaterhouseCoopers
20 February 2017

Mohamed ElBorno
Registered Auditor Number 946
Dubai, United Arab Emirates

UNITED ARAB BANK P.J.S.C.

CONSOLIDATED STATEMENT OFFINANCIAL POSITION

At 31st December 2016

	Notes	2016 AED'000	2015 AED'000 (Restated)
Assets			
Cash and balances with the UAE Central Bank	5	**2,766,528**	3,075,352
Due from other banks	6	**365,076**	864,386
Loans and advances	7	**13,345,562**	15,671,631
Investments	8	**3,313,753**	2,559,350
Investment property	9	**-**	78,000
Property, equipment and capital work–in–progress	10	**584,325**	587,718
Other assets	11	**876,300**	827,186
Total assets		**21,251,544**	23,663,623
Liabilities and shareholders' equity			
Liabilities			
Due to banks	12	**1,095,482**	1,037,946
Customers' deposits	13	**15,538,015**	16,775,043
Medium term borrowings	14	**1,524,005**	2,313,549
Other liabilities	15	**1,007,325**	967,130
Total liabilities		**19,164,827**	21,093,668
Shareholders' equity			
Share capital	16	**1,375,033**	1,375,033
Special reserve	16	**412,659**	412,659
Statutory reserve	16	**495,214**	495,214
General reserve	16	**9,311**	9,311
Revaluation reserve	16	**673**	714
Retained earnings		**(167,856)**	354,794
Cumulative changes in fair values	16	**(38,317)**	(77,770)
Total shareholders' equity		**2,086,717**	2,569,955
Total liabilities and shareholders' equity		**21,251,544**	23,663,623

The financial statements were approved by the Board of Directors on 20th February 2017 and signed on its behalf by:

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

....
Samer Tamimi
Acting Chief Executive Officer

UNITED ARAB BANK P.J.S.C.

CONSOLIDATED STATEMENT OF INCOME

At 31st December 2016

	Notes	**2016 AED'000**	2015 AED'000 (Restated)
Interest income	17	**943,988**	1,216,833
Interest expense	18	**(310,378)**	(229,613)
Net interest income		**633,610**	987,220
Net fees and commission income	19	**83,870**	103,247
Foreign exchange income	20	**68,275**	75,947
Other operating income	21	**75,614**	29,683
Operating income		**861,369**	1,196,097
Net impairment losses	7	**(1,011,434)**	(887,791)
Net operating (loss) / income		**(150,065)**	308,306
Employee benefit expenses		**(225,404)**	(280,969)
Depreciation		**(34,350)**	(31,465)
Other operating expenses	22	**(112,872)**	(178,968)
Total operating expenses		**(372,626)**	(491,402)
Net loss for the year		**(522,691)**	(183,096)
Losses per share (basic and diluted in AED)	23	**(0.38)**	(0.13)

The attached notes 1 to 32 form part of these consolidated financial statements.

UNITED ARAB BANK P.J.S.C.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

At 31st December 2016

	2016 AED'000	2015 AED'000 (Restated)
Net loss for the year	**(522,691)**	(183,096)
Other comprehensive income		
Items that are or may be reclassified subsequently to the consolidated statement of income		
Net changes in fair value of available for sale investments	**7,423**	(45,673)
Available for sale investments – reclassified to the consolidated statement of income	**32,030**	19,649
	39,453	(26,024)
Total comprehensive loss for the year	**(483,238)**	(209,120)

The attached notes 1 to 32 form part of these consolidated financial statements.

UNITED ARAB BANK P.J.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

At 31st December 2016

	Notes	*2016 AED'000*	*2015 AED'000 (Restated)*
Operating Activities			
Net loss for the year		**(522,691)**	(183,096)
Adjustments for:			
Depreciation	10	**34,350**	31,465
Loss on write off of property and equipment	10	**11,578**	1,156
Net impairment losses	7	**1,011,434**	887,791
Amortisation of premium paid on investments		**25,959**	14,189
Net fair value gain on disposal of investments		**(39,929)**	(9,662)
Net fair value loss / (gain) on disposal of investment property	9	**3,000**	(1,089)
Operating profit before working capital changes		**523,701**	740,754
Changes in operating assets and liabilities:			
Loans and advances		**1,294,733**	1,381,481
Balances with UAE Central Bank maturing after three months		**(97,235)**	228,452
Due from other banks maturing after three months		**(33,193)**	(91,807)
Cash margin held by counterparty banks against borrowings and derivative transactions	6	**40,842**	(20,920)
Other assets	11	**(29,212)**	190,968
Due to banks maturing after three months		**(23,413)**	519,193
Customers' deposits	13	**(1,237,028)**	(1,943,254)
Other liabilities	15	**16,196**	(232,056)
Net cash generated from operating activities		**455,391**	772,811
Investing activities			
Purchase of property, equipment and capital work-in-progress	10	**(42,535)**	(211,224)
Purchase of investments		**(5,169,198)**	(2,873,787)
Proceeds from redemption / sale of investments		**4,492,217**	2,767,644
Proceeds from sale of investment properties	9	**75,000**	15,883
Net cash used in investing activities		**(644,516)**	(301,484)
Financing activities			
Net (repayment of) / proceeds from medium term borrowings	14	**(789,544)**	293,894
Directors' remuneration		**-**	(10,800)
Cash dividends paid	16	**-**	(114,586)
Net cash (used in) / generated from financing activities		**(789,544)**	168,508
Net change in cash and cash equivalents		**(978,669)**	639,835
Cash and cash equivalents at 1 January		**2,610,146**	1,970,311
Cash and cash equivalents at 31 December		**1,631,477**	2,610,146

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

Cash and balances with UAE Central Bank	**1,647,961**	2,054,020
Due from banks	**216,008**	707,669
Due to banks	**(232,492)**	(151,543)
	1,631,477	2,610,146

The attached notes 1 to 32 form part of these consolidated financial statements.

UNITED ARAB BANK P.J.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2016

	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 1st January 2015	1,145,861	412,659	495,214	9,311	750	914,759	(66,893)	2,911,661
Restatement due to prior period errors (Note 32)	-	-	-	-	-	(33,147)	15,147	(18,000)
At 1st January 2015 (restated – Note 32)	1,145,861	412,659	495,214	9,311	750	881,612	(51,746)	2,893,661
Loss for the year	-	-	-	-	-	(183,096)	-	(183,096)
Other comprehensive loss for the year	-	-	-	-	-	-	(26,024)	(26,024)
Total comprehensive loss for the year	-	-	-	-	-	(183,096)	(26,024)	(209,120)
Depreciation transfer for land and buildings	-	-	-	-	(36)	36	-	-
Scrip dividend	229,172	-	-	-	-	(229,172)	-	-
Cash dividend	-	-	-	-	-	(114,586)	-	(114,586)
At 31st December 2015 (restated – Note 32)	1,375,033	412,659	495,214	9,311	714	354,794	(77,770)	2,569,955
At 1st January 2016 (restated – Note 32)	**1,375,033**	**412,659**	**495,214**	**9,311**	**714**	**354,794**	**(77,770)**	**2,569,955**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**(522,691)**	**-**	**(522,691)**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**39,453**	**39,453**
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**(522,691)**	**39,453**	**(483,238)**
Depreciation transfer for land and buildings	**-**	**-**	**-**	**-**	**(41)**	**41**	**-**	**-**
At 31st December 2016	**1,375,033**	**412,659**	**495,214**	**9,311**	**673**	**(167,856)**	**(38,317)**	**2,086,717**

The attached notes 1 to 32 form part of these consolidated financial statements.

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 28th November 2011, Al Sadarah Investment Company was formed as an investment company by the Bank. Al Sadarah Investment Company ("the subsidiary") started its operations on 3rd 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 31st December 2016. 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 (31st December 2015: 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 ("Companies Law") which is applicable to the Group has come into effect on 1st July 2015. The Group has assessed and evaluated the provisions of the Companies Law and is in the process of ensuring compliance within the transitional period of this Law which has been extended to 30th June 2017.

3 SIGNIFICANT ACCOUNTING POLICIES

New and revised International Financial Reporting Standards

Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 1st January 2016

A number of new standards and amendments became effective for the year ended 31st December 2016. These are listed out below.

New standards and significant amendments to standards applicable to the Group	*Effective for annual periods beginning on or after:*
Amendments to IAS 1 Presentation of financial statements (disclosure initiative) The amendments clarify that it may be necessary to disaggregate some of the line items specified in IAS 1 paragraphs 54 (statement of financial position) and 82 (profit or loss). That disaggregation is required where it is relevant to an understanding of the entity's financial position or performance.	1st January 2016
Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation. This amendment clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances.	1st January 2016
Annual improvements 2014 These annual improvements amend standards from the 2012 - 2014 reporting cycle. It includes changes to: • IFRS 7, 'Financial instruments: Disclosures' – The amendment related to servicing contracts requires that if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. • IAS 19, 'Employee benefits' – The amendment clarifies, when determining the discount rate for post-employment benefit obligations, that it is the currency that the liabilities are denominated in that is important, not the country where they arise. • IAS 34, 'Interim financial reporting', regarding information disclosed elsewhere in the interim financial report. The amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment further amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.	1st January 2016

There is no material impact of the above amendments and revised standards on the consolidated financial statements of the Group.

There are no other IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning on 1st January 2016 that have had a material impact on the Group's consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

New and revised International Financial Reporting Standards (continued)

Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 1st January 2016 and not early adopted

New standards and significant amendments to standards issued and not yet effective and not early adopted	*Effective for annual periods beginning on or after:*
IFRS 9, 'Financial instruments' The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1st January 2018
Amendments to IAS 7, Statement of cash flows on disclosure initiative These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities including those from cash flows and other non-cash changes. The new requirement typically entails a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.	1st January 2017
IFRS 15, 'Revenue from contracts with customers' This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1st January 2018

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

New and revised International Financial Reporting Standards (continued)

Standards, amendments and interpretations issued but are not yet effective for the Group's accounting period beginning on 1st January 2016 and not early adopted (continued)

New standards and significant amendments to standards issued and not yet effective and not early adopted	*Effective for annual periods beginning on or after:*
IFRS 16 'Leases' This standard replaces the current guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 is not expected to have material impact on the consolidated financial statements.	1st January 2019
Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' regarding the sale or contribution of assets between an investor and its associate or joint venture These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. These amendments are not expected to have material impact on the consolidated financial statements.	Date to be determined

The Group has plans in place for adhering to the above new standards and amendments to published standards or IFRIC interpretations issued but not yet effective for the Group's financial year beginning on 1st January 2016. The Group is currently assessing the impact of these standards and interpretations on the consolidated financial statements.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1st January 2016 that would be expected to have a material impact on the consolidated interim financial information of the Group.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the following financial assets and liabilities that are measured at fair value:

- derivative financial instruments;
- available-for-sale financial assets; and
- investment properties

Functional and presentation currency

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2016 (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 investment 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.

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. All assets and liabilities in the consolidated statement of financial position are financial instruments except property and equipment, capital work-in-progress, prepayments, provision for employee service benefits and shareholders' equity.

Classification

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

- Financial assets at fair value through profit or loss: 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 were designated as hedges.

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

- 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

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 are initially recognised on the trade date which is the date on 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.

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.

Subsequent measurement

Subsequent to initial recognition, all financial instruments to be fair valued are measured at fair value using the fair value measurement principles below.

All other assets are measured at amortised cost using the effective interest method less impairment losses, if any.

Gains and losses on subsequent measurement

Debt Investments
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.

Equity Investments
Gains and losses arising from changes in the fair value on equity investments are recognized in 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. Dividends from such investments continue to be recognised in profit or loss as other income when the right to receive payments is established.

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.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Fair value measurement (continued)

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.

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

Due from banks

Due from banks and financial institutions are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate less allowance for impairment, if any.

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, deposits with the Central Bank with an original maturity of three months or less, and amounts due from (to) banks on demand or with an original maturity of three months or less.

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.

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)*

Financial instruments (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.

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.

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.

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 may be embedded in another contractual agreement (host contract). 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.

Impairment of financial assets

The Group assesses at each statement of financial position date whether there was 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) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Downgrading below investment grade level; and
- Skipping / non-existence of borrowers

(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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

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 revised / renegotiated rate of interest. 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.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

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.

Write-off

The Group writes off a loan or other Financial asset (and any other related allowances for impairment losses) when the Group Credit determines that the loans or other financial assets are uncollectible in whole or in part. This is determined after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Assets are written-off against provisions up to the extent of amount considered un-collectible.

However the Group retains its full legal claim on, and may continue with its recovery effort including litigation, on written-off accounts.

Assets acquired in settlement of debts

In certain cases, the Group may close out transactions by acquiring assets in settlement of debts. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment losses) at the date of exchange. These assets are recorded in "Other assets". It is the Group's policy to dispose of such repossessed properties in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Revenue recognition

For all financial instruments measured at amortised cost and debt financial instruments classified as available for sale, interest income or expense is recorded at the effective interest rate, which is the rate that 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.

Other fee income and expense are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

Investment properties

Investment properties 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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

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.

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.

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.

Employees' end of service benefits

Provision is made, in accordance with the provisions of IAS 19, for the end of service benefits due to employees in accordance with the UAE labor law for their period of service up to the financial position date and the provision arising is disclosed as 'provision for employees' end of service benefits' in the statement of financial position. The Group pays its contributions in respect of UAE citizens under the UAE pension and social security law and no further liability exists.

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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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.

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.

Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the bank and is therefore recognized as a financial liability in the consolidated statement of financial position. However every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

Islamic financing and investment products

In addition to conventional banking products, the Group offers its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.

The various Islamic instruments described below are accounted for, disclosed and presented in accordance with the requirements of the underlying substance of the instruments and IFRS / IAS / IFRIC.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Islamic financing and investment products (continued)

Murabaha:

Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. Murabaha is a sale transaction in which the seller (Group) expressly mentions the actual cost of the asset to be sold to the customer, and sells it to the customer on a cost plus mark-up (profit) basis. It is in fact the sale of an asset for a profit, usually on deferred payment basis.

Income on Murabaha financing is recognised on a time apportioned basis over the period of the Murabaha contract, using the effective profit rate method.

Ijara:

Ijara involves a contract where the Group buys and then leases an item to a customer for a specified rental over a specific period. The duration of lease, as well as the basis for rental, are set and agreed in advance. The Group acquires the beneficial ownership of the property to lease the usufruct to the customer.

Income on Ijara financing is recognised on a time apportioned basis over the lease term, using the effective profit rate method.

Qard:

A Qard is the transfer of ownership in tangible wealth (money), from the customer to the Group, and it is binding on the Group to return equal wealth (money) to the customer on demand or as per the agreed terms, which means that the principal is to be repaid on demand. The Islamic current account offered to customers is based on the concept of Qard, a profit free amount received from the customer to the Group, on which no profit or other form of return is payable.

Wakala:

Wakala involves an agreement, based on the concept of Wakala Bil Istithmar, where the Group becomes the investment agent (Wakil) for its customers (Muwakkil) for deposit of their funds in the Wakala investment account to be invested in Shariah-compliant investment instruments. The funds are used to generate profit for the customer by investing in Islamic financing facilities to the Group's other customers or investing in other Shariah-compliant investment instruments.

Income generated from the financing and investment activities are paid to the customers and the Group recognises income in the form of a fixed Wakala fee. Where the income generated exceeds the anticipated profit rate, the Group recognises income in the form of a performance fee.

4 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:

Impairment losses on financial assets

The Group reviewed 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 were assessed individually and found not to be impaired and all individually insignificant loans and advances were 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 were 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).

Impairment of investments

The Group treats its equity and debt 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.

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, at least beyond 12 months from the balance sheet date. 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.

5 CASH AND BALANCES WITH UAE CENTRAL BANK

	2016 AED'000	2015 AED'000
Cash on hand	**107,616**	138,719
Balances with the UAE Central Bank:		
Clearing accounts	**690,345**	1,115,301
Certificate of deposits	**1,200,000**	800,000
Reserve requirements	**768,567**	1,021,332
	2,766,528	3,075,352

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.

6 DUE FROM OTHER BANKS

	2016 AED'000	2015 AED'000
Demand deposits	**174,422**	177,687
Term deposits	**190,654**	686,699
	365,076	864,386

Due from other banks includes AED 208,279,000 (2015: AED 554,091,000) placed with foreign banks outside the UAE. AED 24,068,000 (2015: AED 64,910,000) is held by other banks as margin for derivative transactions.

7 LOANS AND ADVANCES

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

	2016 AED'000	2015 AED'000
a) By type:		
Overdrafts	**1,369,166**	1,548,208
Loans (medium and short term)*	**11,155,680**	12,286,125
Loans against trust receipts	**1,340,716**	1,640,225
Bills discounted	**304,153**	763,734
Other cash advances	**78,707**	95,681
Bills drawn under letters of credit	**86,132**	156,683
Gross amount of loans and advances	**14,334,554**	16,490,656
Less: Provision for impairment on loans and advances	**(988,992)**	(819,025)
Net loans and advances	**13,345,562**	15,671,631

* Includes retail loans of AED 3,658,144,000 (2015: AED 4,814,577,000)

	2016 AED'000	2015 AED'000
(b) By economic sector:		
Government and public sector	**600,868**	693,431
Trade	**2,402,202**	2,887,297
Personal loans (retail and business)	**5,646,201**	6,682,272
Manufacturing	**1,822,292**	2,194,723
Construction	**771,602**	783,641
Services	**1,451,163**	1,471,434
Financial institutions	**1,224,798**	1,293,692
Transport and communication	**396,103**	481,895
Others	**19,325**	2,271
Gross amount of loans and advances	**14,334,554**	16,490,656

Loans and advances are stated net of provision for impairment.

7 LOANS AND ADVANCES *(continued)*

Loans and advances are stated net of provision for impairment of loans and advances. The movement in provision is as follows:

	2016 AED'000	*2015 AED'000*
Balance at 1 January	**819,025**	525,531
Provided during the year	**1,205,295**	934,861
Released during the year	**(175,734)**	(32,212)
	1,029,561	902,649
Amounts written off (net) during the year	**(859,594)**	(609,155)
Balance at 31 December	**988,992**	819,025

At 31 December 2016, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to AED 825,302,000 (2015: AED 661,150,000).

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

	2016 AED'000	*2015 AED'000*
Net impairment of loans and advances	**1,029,561**	902,649
Recovery of bad debt written off	**(18,127)**	(14,858)
Provision for credit losses	**1,011,434**	887,791

7 LOANS AND ADVANCES *(continued)*

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

	2016		2015	
	Gross Specific AED'000	***Specific provision AED'000***	Gross Specific AED'000	Specific provision AED'000
By economic sector				
Trade	**256,572**	**186,635**	211,675	177,307
Personal loans (retail and business)	**117,860**	**55,524**	208,692	71,803
Manufacturing	**66,499**	**42,230**	61,865	41,740
Construction	**23,613**	**23,165**	85,338	84,609
Services	**343,850**	**264,529**	91,367	46,360
Financial institutions	**-**	**-**	-	-
Transport and communication	**1,983**	**1,880**	2,137	570
Others	**14,925**	**3,627**	76	2
Total	**825,302**	**577,590**	661,150	422,391

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 2016 amounts to AED 255,353,000 (2015: AED 166,956,000). The collateral consists of cash, securities, first and floating charges over real estate properties, vehicles, plant and machinery, inventory, trade receivables and guarantees from parent companies for loans to their subsidiaries or other group companies. During the year, the Group did not repossess any material amounts of collateral.

8 INVESTMENTS

	2016			2015		
	Quoted AED'000	Unquoted AED'000	Total AED'000	Quoted AED'000	Unquoted AED'000	Total AED'000
Debt:						
Held for trading						
Local	**18,572**	**-**	**18,572**	-	-	-
Overseas	**201,095**	**-**	**201,095**	-	-	-
Available for sale						
Local	**2,553,409**	**-**	**2,553,409**	2,253,806	-	2,253,806
Overseas	**531,520**	**-**	**531,520**	295,854	-	295,854
Total debt securities	**3,304,596**	**-**	**3,304,596**	2,549,660	-	2,549,660
Equity:						
Available for sale						
Overseas	**9,081**	**76**	**9,157**	9,614	76	9,690
Total equities	**9,081**	**76**	**9,157**	9,614	76	9,690
Total investments	**3,313,677**	**76**	**3,313,753**	2,559,274	76	2,559,350

Included in the above are investment securities amounting to AED 554,968,000 (2015: AED 774,420,000) held under repurchase agreement with the lenders.

The Group has not purchased or invested in shares of companies in 2016 (2015: AED Nil)

9 INVESTMENT PROPERTIES

Investment property represents a building in the UAE, which has been possessed through foreclosure of a loan. During the year ended 31st December 2016, the Group did not acquire any new investment property (31st December 2015: AED Nil). During the year ended 31st December 2016, the Group disposed of its remaining investment property at a value of AED 75,000,000 (31st December 2015: two properties at a combined value of AED 14,794,000) resulting in a net loss on sale of AED 3,000,000 (31st December 2015: gain of AED 1,089,000) and is included in the consolidated statement of income.

During the review of investment property, an error in the valuation of an investment property included in the financial statements of the Group for the year ended 31st December 2014 has been rectified in the current year. Please see note 31 for further details.

10 PROPERTY, EQUIPMENT AND CAPITAL WORK-IN-PROGRESS

	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:				
At 1st January 2016	436,030	241,588	44,594	722,212
Additions	-	7,936	34,599	42,535
Transfers	-	31,882	(31,882)	-
Write-offs	-	(16,300)	-	(16,300)
Disposals	-	(865)	-	(865)
At 31st December 2016	436,030	264,241	47,311	747,582
Depreciation:				
At 1st January 2016	9,119	125,375	-	134,494
Charge for the year	3,891	30,459	-	34,350
Transfer	-	-	-	-
Write-offs	-	(4,722)	-	(4,722)
Disposals	-	(865)	-	(865)
At 31st December 2016	13,010	150,247	-	163,25
Net Carrying Value:				
At 31st December 2016	423,020	113,994	47,311	584,325

10 PROPERTY, EQUIPMENT AND CAPITAL WORK-IN-PROGRESS *(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:				
At 1st 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 31st December 2015	436,030	241,588	44,594	722,212
Depreciation:				
At 1st 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 31st December 2015	9,119	125,375	-	134,494
Net Carrying Value:				
At 31st December 2015	426,911	116,213	44,594	587,718

The cost of freehold land included above is AED 338,368,000 (2015: AED 338,368,000).

During 2016, 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 34,599,000 (2015: AED 39,264,000). Upon completion of associated projects, AED 31,882,000 (2015: AED 9,113,000) was transferred to 'motor vehicles, leasehold improvements, furniture, fixtures and equipment'.

During 2016, the Group undertook a review of its branch network and wrote off furniture and equipment with a net carrying value of AED 11,578,000 (2015: AED Nil) resulting from closure of certain branches.

Intangible assets relating to computer software are included within equipment and capital work-in-progress with a net carrying value of AED 32,029,000 (2015: AED 21,576,000).

11 OTHER ASSETS

	2016 AED'000	2015 AED'000
Interest receivable	**79,597**	91,850
Positive fair value of derivatives (Note 24)	**109,963**	29,343
Acceptances	**616,410**	639,742
Prepayments and other assets	**70,330**	66,251
	876,300	827,186

12 DUE TO BANKS

	2016 AED'000	2015 AED'000
Demand deposits	**12,491**	6,458
Term deposits	**1,082,991**	1,031,488
	1,095,482	1,037,946

Term deposits include borrowings through repurchase agreements of AED 440,676,000 (31st December 2015: AED 682,613,000).

13 CUSTOMERS' DEPOSITS

	2016 AED'000	2015 AED'000
Term and call deposits	**11,054,363**	11,548,820
Current accounts	**4,108,846**	4,701,183
Saving accounts	**374,806**	525,040
	15,538,015	16,775,043

14 MEDIUM TERM BORROWINGS

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

	2016 AED'000	2015 AED'000
Balance as at 1st January	**2,313,549**	2,019,655
New borrowings	**550,845**	1,028,344
Repayments	**(1,340,389)**	(734,450)
Balance as at 31st December	**1,524,005**	2,313,549

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

Maturity	Currency	Fixed / Floating	Interest Rate	2016 AED'000	2015 AED'000
2016	USD	Floating	LIBOR + Margin	**91,808**	319,332
2017	USD	Floating	LIBOR + Margin	**1,432,197**	1,057,780
2018	USD	Floating	LIBOR + Margin	**-**	936,437
				1,524,005	2,313,549

15 OTHER LIABILITIES

	2016 AED'000	2015 AED'000
Interest payable	**101,862**	76,904
Staff related provisions	**34,662**	39,570
Negative fair value of derivatives (Note 24)	**82,807**	69,462
Acceptances	**616,410**	639,742
Un-presented cheques	**76,926**	48,258
Others	**94,658**	93,194
	1,007,325	967,130

	2016 AED'000	2015 AED'000
Staff related provisions		
The aggregate employee entitlement liability comprises:		
Employees' end of service benefits	**30,115**	29,115
Other liabilities	**4,547**	10,455
	34,662	39,570

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:

	2016 AED'000	2015 AED'000
Liability as at 1st January	**29,115**	34,732
Expense recognised in the consolidated statement of income	**6,970**	6,384
End of service benefits paid	**(5,970)**	(12,001)
Liability as at 31st December	**30,115**	29,115

16 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised, issued and fully paid up share capital of the Bank comprises 1,375,033,766 (2015: 1,375,033,766) 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.

16 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 was 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. The revaluation reserve balance pertains to revaluations done in 2007.

f) Dividends

The directors do not propose any cash dividend for the year ended 31st December 2016 (2015: Nil). For the year ended 31st December 2014, a cash dividend of AED 114,586,147 at AED 0.10 per share of AED 1 each and a scrip dividend of AED 229,172,994 at AED 0.20 per share of AED 1 each was approved which was paid in 2015.

g) Cumulative changes in fair value

Cumulative changes in fair value reserve includes the net change in fair value of available-for-sale financial assets and the net effective portion of changes in fair value of cash flow hedges (if any).

17 INTEREST INCOME

	2016 AED'000	*2015 AED'000*
Interest on loans and advances to customers	**827,848**	1,108,150
Interest on money market and inter bank transactions	**15,738**	13,478
Interest on debt investments securities	**100,402**	95,205
	943,988	1,216,833

18 INTEREST EXPENSE

	2016 AED'000	*2015 AED'000*
Interest on customer deposits	**226,894**	160,246
Interest on interbank transactions	**83,484**	69,367
	310,378	229,613

19 NET FEES AND COMMISSION INCOME

	2016 AED'000	*2015 AED'000*
Fees on letters of credit and acceptances	**20,590**	26,034
Fees on guarantees	**25,172**	34,655
Fees on loans and advances	**58,140**	72,640
Commission expense	**(20,032)**	(30,082)
	83,870	103,247

20 FOREIGN EXCHANGE INCOME

Foreign exchange income comprises mainly of gains and losses of AED 57,493,000 (2015: AED 54,159,000) arising from trading of foreign currencies.

21 OTHER OPERATING INCOME

	2016 AED'000	2015 AED'000
Charges recovered from customers	**37,037**	29,702
Income from collections	**5,419**	5,850
Others	**33,158**	(5,869)
	75,614	29,683

Other income primarily includes realized gains of AED 38,487,000 (2015: AED 9,057,000) on sale of available-for-sale investments including related hedge accounting adjustments. Other income for the year ending 31 December 2015 has been restated to account for the ineffectiveness on fair value hedges amounting to a loss of AED 16,949,00 (Note 32).

22 OTHER OPERATING EXPENSES

	2016 AED'000	2015 AED'000
Occupancy and maintenance costs	**54,347**	53,054
Legal and professional fees	**27,891**	79,620
Other administrative expenses	**19,056**	45,138
Write-off of property and equipment	**11,578**	1,156
	112,872	178,968

23 EARNING 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:

	2016 AED'000	2015 AED'000
Net loss for the year	**(522,691,000)**	**(183,096,000)**
Weighted average number of ordinary shares:		
Ordinary shares of AED 1 each at the beginning of the year	**1,375,033,766**	1,145,861,472
Effect of scrip dividend of AED 0.20 per share of AED 1 each issued during 2015	**-**	229,172,294
Weighted average number of shares of AED 1 each outstanding for the year	**1,375,033,766**	1,375,033,766
Basic earnings per share	**(0.38)**	(0.13)

Weighted average number of shares outstanding for the year has been adjusted to include the effect of a scrip dividend issued during 2015.

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 if or when exercised.

24 RELATED PARTY TRANSACTIONS

The Group carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant influence on the Group, directors of the Group, key management personnel of the group and companies over which such shareholders and directors exercise control or significant influence either directly or indirectly.

The significant balances outstanding at 31st December are as follows:

	2016 AED'000	2015 AED'000
Shareholders:		
Due from banks	**2,022**	3,182
Due to banks	**1,752**	1,752
Medium term borrowings	**165,254**	141,703
Directors:		
Loans and advances	**501**	3,241
Customers' deposits	**36,033**	37,065
Commitments and contingencies	**45**	45
Other related entities of shareholders and directors:		
Loans and advances	**299,677**	248,611
Investments	**85,560**	9,336
Due from banks	**72**	111,965
Due to banks	**50**	12
Customers' deposits	**256,711**	308,659
Commitments and contingencies	**287,205**	297,791
Key management personnel of the Group:		
Loans and advances	**14,803**	15,893
Customers' deposits	**6,169**	28,035
Shareholders, directors, their related entities and key management personnel		
Accrued interest income	**5,687**	4,231
Accrued interest expense	**2,646**	1,066

24 RELATED PARTY TRANSACTIONS *(continued)*

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

	2016 AED'000	2015 AED'000
Shareholders, directors, their related entities:		
Interest income	**22,465**	12,744
Interest expense	**9,330**	4,236
Other Income	**-**	644
Management fee	**-**	2,645
Loss from sale of investments	**104**	-
Purchase of investments	**5,586**	-
Sale of investments	**39,236**	-

	2016 AED'000	2015 AED'000
Key management personnel:		
Short term benefits	**28,398**	31,588
Employees' end of service benefits	**740**	2,804
Total compensation to key management personnel as at 31 December	**29,138**	34,392
Interest income	**243**	236
Interest expense	**18**	17

Terms and conditions of transactions with related parties

The above mentioned outstanding balances and transactions arose from the ordinary course of business and have been conducted on arm's length basis. 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 2016, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2015: AED Nil).

	2016	2015
Number of key management personnel	**22**	26

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 2,332,000 (2015: AED 2,355,000). The property rentals are negotiated each year at market rates.

25 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 and swaps.

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.

Purpose of derivatives

The Group is a party to derivative instruments in the normal course of meeting the needs of the Group's customers. In addition, The Group also uses derivatives for trading purposes and, as part of its risk management activity, the Group uses 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.

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 28).

The tables below show the fair values of derivative financial instruments for risk management and hedging purposes, recorded as assets and liabilities, together with their 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.

25 DERIVATIVES *(continued)*

Purpose of derivatives (continued)

A. Derivatives held for risk management

31st December 2016

				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
Forward contracts	100,963	(52,820)	15,550,449	8,066,054	3,791,977	3,692,418	-
Foreign currency options	867	(867)	168,017	22,034	145,983	-	-
Interest rate swaps	3,314	(3,314)	411,815	-	-	192,636	219,179
	105,144	(57,001)	16,130,281	8,088,088	3,937,960	3,885,054	219,179

31st 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
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	(1,564)	397,507	-	-	397,507	-
	29,343	(27,844)	8,781,857	2,827,122	4,412,227	1,542,508	-

B. Derivatives held for Hedging purposes

Fair value hedges of interest rate risk

The Group uses interest rate swaps to hedge its exposure to changes in fair values of fixed-rate investments in respect of a benchmark interest rate. Interest rate swaps are matched to specific purchases of investments.

The Group hedges interest rate risk only to the extent of benchmark interest rates. The benchmark rate is a component of interest rate risk that is observable in relevant environments. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

When fair value hedge accounting is applied by the Group, the Group assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair value of the hedged item using regression analysis. The assessment is based on an evaluation of the quantitative measures of the regression results.

The fair value of the swaps is disclosed in other assets (liabilities) and the carrying amount of the hedged items included in the line item 'Investments' in the consolidated statement of financial position. Fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other operating income.

25 DERIVATIVES *(continued)*

Purpose of derivatives (continued)

B. Derivatives held for Hedging purposes (continued)

Fair value hedges of interest rate risk

At 31st December 2016, the Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk, along with amounts relating to hedged items.

31st December 2016

				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
Hedge of investments	4,819	(25,806)	1,063,964	-	-	157,909	906,055
	4,819	(25,806)	1,063,964	-	-	157,909	906,055

31st 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
Hedge of investments	-	(41,618)	1,026,813	-	-	36,723	990,090
	-	(41,618)	1,026,813	-	-	36,723	990,090

The fair value of the swaps are disclosed in other assets / (liabilities) on the consolidated statement of financial position.

The carrying amount of the hedged items are included in the line item 'Investments' on the consolidated statement of financial position with the notional amount totalling to AED 1,063,964,000 (2015: AED 1,026,813,000). These hedged item comprises of debt instruments which are held as available-for-sale.

During 2016, the Group has recognised a loss of AED 3,369,000 relating to hedge ineffectiveness calculated as changes in value of hedging instrument and hedged item as follows:

	Change in value-AED'000	Ineffectiveness recognised in profit and lossAED'000
On hedging instruments	20,723	(3,369)
On hedged items	(24,092)	

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% (2015: 95%) of the Group's derivative contracts are entered into with other financial institutions.

26 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 commitments are revocable and generally have fixed expiry dates or other termination clauses. Since commitments are revocable, 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:

	2016 AED'000	2015 AED'000
Contingent liabilities		
Letters of credit	**420,563**	461,358
Guarantees	**3,218,243**	3,023,975
	3,638,806	3,485,333
Commitments		
Undrawn loan commitments	**2,716,966**	2,784,629

27 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 board sub-committees 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.

27 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).

Group Remuneration Committee
The Group Remuneration Committee (GRC) acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles. The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements.

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.

General Management Risk Committee
The General Management Risk Committee (GMRC) is the highest approving authority at the management level on all aspects of enterprise risk management including, but not restricted to: credit risk; market risk; operational risk; legal risk; regulatory risk; liquidity risk; financial risks; corporate governance; and audit matters of the Bank (and any subsidiaries and affiliates in which it has strategic investments). The GMRC provides recommendation on all risks and investment policies and portfolio issues to the BRC, and to other Board Committees.

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.

27 RISK MANAGEMENT *(continued)*

Introduction (continued)

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 and foreign currencies.

The Group actively uses collateral to reduce its credit risks.

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	**2016 AED'000**	2015 AED'000
Cash and balances with UAE Central Bank (excluding cash on hand)	5	**2,658,912**	2,936,633
Due from banks	6	**365,076**	864,386
Loans and advances (net of provisions)	7	**13,345,562**	15,671,631
Investments	8	**3,304,596**	2,549,660
Other assets **excluding prepayments and assets acquired in settlement of debt*	11	**824,489**	785,743
Total		**20,498,635**	22,808,053
Letters of credit	26	**420,563**	461,358
Guarantees	26	**3,218,243**	3,023,975
Undrawn loan commitments	26	**2,716,966**	2,784,629
Total		**6,355,772**	6,269,962
Total credit risk exposure		**26,854,407**	29,078,015

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.

27 RISK MANAGEMENT *(continued)*

Credit Risk (continued)

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 31st December 2016 was AED 600,868,000 (2015: AED 665,097,000) before taking account of collateral or other credit enhancements and AED 600,868,000 (2015: AED 665,097,000) 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:

	2016		2015	
	Assets AED'000	***Contingent Liabilities and commitments AED'000***	*Assets AED'000*	*Contingent Liabilities and commitments AED'000*
United Arab Emirates	**18,668,773**	**5,928,546**	21,062,184	5,742,320
Other Middle East countries	**1,312,349**	**168,983**	1,391,515	174,474
Europe	**128,133**	**59,248**	157,652	78,868
USA	**262,302**	**-**	10,586	500
Rest of World	**127,078**	**198,995**	186,116	273,800
Total	**20,498,635**	**6,355,772**	22,808,053	6,269,962

An industry sector analysis of the Group's maximum exposure to credit risk (excluding cash on hand) after provisions but before taking into account collateral held or other credit enhancements, is as follows:

	2016 AED'000	*2015 AED'000*
Financial Services	**4,866,970**	5,632,177
Trade	**2,766,359**	3,290,291
Manufacturing	**1,992,628**	2,380,650
Government and public sector	**3,491,050**	2,851,626
Construction	**831,466**	794,099
Other services	**1,872,852**	1,993,692
Other	**5,666,302**	6,684,543
	21,487,627	23,627,078
Less: Provision for impairment on loans and advances	**(988,992)**	(819,025)
	20,498,635	22,808,053

27 RISK MANAGEMENT *(continued)*

Credit Risk (continued)

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 financial assets based on the Group's credit rating system.

31st December 2016	***Neither past due nor impaired***					
	High grade AED'000	***Standard grade AED'000***	***Sub - standard grade AED'000***	***Past due but not impaired AED'000***	***Individually impaired AED'000***	***Total AED'000***
Balances with the UAE Central Bank	**2,658,912**	**-**	**-**		**-**	**2,658,912**
Due from banks	**104,117**	**260,959**	**-**		**-**	**365,076**
Loans and advances (Gross)						
Corporate	**424,538**	**7,517,836**	**1,702,293**	**328,452**	**703,291**	**10,676,410**
Retail	**-**	**3,515,836**	**-**	**20,297**	**122,011**	**3,658,144**
Investments	**2,469,548**	**835,048**	**-**	**-**	**-**	**3,304,596**
Other assets	**166,083**	**567,718**	**90,688**	**-**	**-**	**824,489**
	5,823,198	**12,697,397**	**1,792,981**	**348,749**	**825,302**	**21,487,627**

31st December 2015	Neither past due nor impaired					
	High grade AED'000	Standard grade AED'000	Sub - standard grade AED'000	Past due but not impaired AED'000	Individually impaired AED'000	Total AED'000
Balances with the UAE Central Bank	2,936,633	-	-	-	-	2,936,633
Due from banks	190,876	673,510	-	-	-	864,386
Loans and advances (Gross)						
Corporate	3,455,925	6,422,666	668,283	648,364	480,841	11,676,079
Retail	-	4,599,212	-	35,056	180,309	4,814,577
Investments	2,176,815	372,845	-	-	-	2,549,660
Other assets	205,765	547,426	32,552	-	-	785,743
	8,966,014	12,615,659	700,835	683,420	661,150	23,627,078

27 RISK MANAGEMENT *(continued)*

Credit Risk (continued)

Past due but not Impaved

Past due loans and advances include those that are past due on their repayment schedule. The majority of the past due loans are not considered to be impaired. Aging analysis of past due but not impaired loans and advances is as follows:

31st December 2016	***Less than 30 days AED'000***	***31 to 60 days AED'000***	***61 to 90 days AED'000***	***More than 91 days AED'000***	***Total AED'000***
Loans and advances	**91,439**	**15,619**	**26,450**	**215,241**	**348,749**

31st December 2015	Less than 30 days AED'000	31 to 60 days AED'000	61 to 90 days AED'000	More than 91 days AED'000	Total AED'000
Loans and advances	226,676	165,130	136,024	155,590	683,420

Approximately 93% (2015: 95 %) of the above loans are advanced to the corporate sector.

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

	2016 AED'000	*2015 AED'000*
Loans and advances	**1,414,555**	708,554

Collateral held and other credit enhancements

The Group holds collateral and other credit enhancements against certain of its credit exposures. The main types of collateral obtained are cash, securities, first and floating 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. 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. Collateral is generally not held against non trading investment and due from banks and financial institutions. Management monitors the market value of collateral and wherever necessary the Group requests collateral in accordance with the underlying agreement and considers collateral value during its periodic review of credit facilities and adequacy of provision for impairment on loans and advances.

The percentage of collateralized exposure and the principal types of collateral held against loans and advances are as follows:

	Percentage of collateralized exposure		*Principal type of collateral held*
	2016	*2015*	
Retail Mortgage loans	**100%**	100%	Residential property
Corporate customers	**51%**	39%	Property and equipment, commercial property, floating charges over corporate assets

27 RISK MANAGEMENT *(continued)*

Credit Risk (continued)

Collateral held and other credit enhancements (continued)

Retail Mortgage loans

Credit exposures on retail mortgage loans by range of loans to value (LTV) ratio are as follows:

	2016 AED'000	2015 AED'000
LTV ratio		
Less than 50%	**331,068**	447,201
51- 70%	**889,410**	1,001,549
71- 90%	**642,716**	617,192
91- 100%	**7,343**	-
More than 100%	**517**	-
Total	**1,871,054**	2,065,942

LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

Impaired loans:

For impaired loans the value of collateral is based on the most recent appraisals. Credit exposure on impaired retail mortgage loans by range of LTV ratio are as follows:

	2016 AED'000	2015 AED'000
LTV ratio		
Less than 50%	**4,009**	10,096
51- 70%	**14,074**	41,371
More than 70%	**25,088**	7,282
Total	**43,171**	58,749

At 31st December 2016, the net carrying amount of impaired loans and advances to retail customers (including mortgages) amounted to AED 122,011,000 (2015: AED 180,309,000) and the value of identifiable collateral held against those loans and advances amounted to AED 76,401,000 (2015: AED 68,435,000).

Corporate customers

At 31st December 2016, the net carrying amount of impaired loans and advances to corporate customers amounted to AED 687,657,000 (2015: AED 480,841,000) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AED 178,952,000 (2015: AED 98,521,000). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that is held against.

27 RISK MANAGEMENT *(continued)*

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:

	2016	*2015*
Lending to Stable Resources Ratio	**77.5%**	81.0%
Eligible Liquid Assets Ratio	**19.2%**	18.7%

The Group stresses the importance of current accounts, time deposits and savings accounts as a source of funds to finance its 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.

27 RISK MANAGEMENT *(continued)*

Liquidity risk (continued)

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 31st December 2016 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	2,466,528	150,000	150,000	2,766,528	-	-	-	-	2,766,528
Due from other banks	240,076	125,000	-	365,076	-	-	-	-	365,076
Loans and advances (Gross)	3,492,042	537,042	696,615	4,725,699	5,093,160	4,515,695	9,608,855	-	14,334,554
Investments	239,007	55,904	-	294,911	1,080,933	1,928,752	3,009,685	9,157	3,313,753
Investment property	-	-	-	-	-	-	-	-	-
Property, equipment and capital work-in-progress	-	-	-	-	-	-	-	584,325	584,325
Other assets	538,105	118,080	137,712	793,897	75,094	7,309	82,403	-	876,300
Provision for impairment of loans and advances	(988,992)	-	-	(988,992)	-	-	-	-	(988,992)
Total assets	5,986,766	986,026	984,327	7,957,119	6,249,187	6,451,756	12,700,943	593,482	21,251,544
Liabilities and Shareholders' equity									
Due to banks	434,468	-	220,338	654,806	440,676	-	440,676	-	1,095,482
Customers' deposits	11,154,900	2,011,526	1,604,571	14,770,997	767,018	-	767,018	-	15,538,015
Medium term borrowings	-	-	91,808	91,808	1,432,197	-	1,432,197	-	1,524,005
Other liabilities	686,642	104,764	118,392	909,798	43,889	23,523	67,412	30,115	1,007,325
Shareholders' equity	-	-	-	-	-	-	-	2,086,717	2,086,717
Total liabilities and shareholders' equity	12,276,010	2,116,290	2,035,109	16,427,409	2,683,780	23,523	2,707,303	2,116,832	21,251,544
Net liquidity gap	(6,289,244)	(1,130,264)	(1,050,782)	(8,470,290)	3,565,407	6,428,233	9,993,640	(1,523,350)	-

27 RISK MANAGEMENT *(continued)*

Liquidity risk (continued)

The maturity profile of assets and liabilities at 31st December 2015 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	3,075,352	-	-	3,075,352	-	-	-	-	3,075,352
Due from other 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	2,399,889	9,690	2,559,350
Investment property	-	-	-	-	-	-	-	78,000	78,000
Property, equipment and capital work-in-progress	-	-	-	-	-	-	-	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	(819,025)	-	-	(819,025)	-	-	-	-	(819,025
Total assets	7,647,971	1,068,717	626,288	9,342,976	7,670,046	5,975,193	13,645,239	675,408	23,663,623
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' equity	-	-	-	-	-	-	-	2,569,955	2,569,955
Total liabilities and shareholders' equity	13,504,901	2,120,504	2,267,130	17,892,535	3,131,858	40,160	3,172,018	2,599,070	23,663,623
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)	-

27 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 31st December 2016 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.

31st December 2016	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
Due to banks	**12,491**	**423,560**	**224,111**	**456,399**	**-**	**1,116,561**
Customers' deposits	**4,538,475**	**6,684,980**	**3,686,877**	**800,888**	**-**	**15,711,220**
Medium term borrowings	**-**	**-**	**94,481**	**1,497,277**	**-**	**1,591,758**
Other liabilities	**171,586**	**393,462**	**209,443**	**18,052**	**-**	**792,543**
Financial derivatives	**-**	**6,524**	**19,571**	**102,118**	**57,590**	**185,803**
Total undiscounted financial liabilities	**4,722,552**	**7,508,526**	**4,234,483**	**2,874,734**	**57,590**	**19,397,885**

31st December 2015	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
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

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

27 RISK MANAGEMENT *(continued)*

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

31st December 2016	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
Inflows	**-**	**2,528**	**8,577**	**70,514**	**51,947**	**133,566**
Outflows	**-**	**(6,524)**	**(19,571)**	**(102,118)**	**(57,590)**	**(185,803)**
Net	**-**	**(3,996)**	**(10,994)**	**(31,604)**	**(5,643)**	**(52,237)**
Discounted at applicable interbank rates	**-**	**(3,956)**	**(10,872)**	**(31,063)**	**(5,522)**	**(51,413)**

31st December 2015	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
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)	(76,400)

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

31st December 2016	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
Contingent Liabilities	**-**	**2,345,876**	**1,059,837**	**233,093**	**-**	**3,638,806**
Commitments	**2,716,966**	**-**	**-**	**-**	**-**	**2,716,966**
Total	**2,716,966**	**2,345,876**	**1,059,837**	**233,093**	**-**	**6,355,772**

31st December 2015	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
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

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments and therefore the actual cash flows are expected to be significantly lower than those reflected in the above table.

27 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:

31st December 2016	*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	900,000	300,000	-	-	1,566,528	2,766,528
Due from other banks	65,654	125,000	-	-	174,422	365,076
Loans and advances	7,530,238	1,320,091	3,736,589	758,644	-	13,345,562
Investments	239,007	55,904	1,080,933	1,928,752	9,157	3,313,753
Investment property	-	-	-	-	-	-
Property, equipment and capital work-in-progress	-	-	-	-	584,325	584,325
Other assets	-	-	-	-	876,300	876,300
Total assets	8,734,899	1,800,995	4,817,522	2,687,396	3,210,732	21,251,544
Liabilities & Shareholders' equity						
Due to banks	1,082,991	-	-	-	12,491	1,095,482
Customers' deposits	6,890,254	3,528,792	758,565	-	4,360,404	15,538,015
Medium term borrowings	1,524,005	-	-	-	-	1,524,005
Other liabilities	-	-	-	-	1,007,325	1,007,325
Shareholders' equity	-	-	-	-	2,086,717	2,086,717
Total liabilities and shareholders' equity	9,497,250	3,528,792	758,565	-	7,466,937	21,251,544
On-balance sheet	(762,351)	(1,727,797)	4,058,957	2,687,396	(4,256,205)	-
Off-balance sheet	1,063,964	-	-	-	16,130,281	17,194,245
Cumulative interest rate sensitivity gap	301,613	(1,426,184)	2,632,773	5,320,169	17,194,245	-

27 RISK MANAGEMENT *(continued)*

Interest rate risk (continued)

31st 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 other banks	594,892	91,808	-	-	177,686	864,386
Loans and advances	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 property	-	-	-	-	78,000	78,000
Property, equipment and capital work-in-progress	-	-	-	-	587,718	587,718
Other assets	-	-	-	-	827,186	827,186
Total assets	7,356,911	1,844,910	7,702,703	2,803,470	3,955,629	23,663,623
Liabilities & Shareholders' equity						
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 borrowings	1,714,804	598,745	-	-	-	2,313,549
Other liabilities	-	-	-	-	967,130	967,130
Shareholders' equity	-	-	-	-	2,569,955	2,569,955
Total liabilities and shareholders' equity	10,196,223	4,401,476	708,387	-	8,357,537	23,663,623
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	-	-

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..

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 31st December 2016, including the effect of hedging instruments.

	2016		*2015*	
	Change in basis points	***Sensitivity of net interest income and equity***	*Change in basis points*	*Sensitivity of net interest income and equity*
Equity				
Increase in rate	**+25**	**16,051**	+25	7,710
Decrease in rate	**-25**	**(16,051)**	-25	(7,710)

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.

The Bank is also exposed to fair value risk arising from its unhedged fixed rate bonds portfolio. A change in the fair value of these bonds by +/- 5% will result in a change in the fair value reserve in equity by AED 1,500,000 (2015: AED 3,000,000).

27 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 most of the 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 2016 on its 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 monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	2016		*2015*	
	Change in currency rate in %	***Effect on profit AED'000***	*Change in currency rate in %*	*Effect on profit AED'000*
Currency				
EUR	**+10**	**7**	+10	(8)
GBP	**+10**	**(1)**	+10	1

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.

28 SEGMENTAL ANALYSIS

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

Corporate banking	principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
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;
Treasury	principally providing money market, trading and treasury services, as well as the management of the Group's funding operations including overseeing the operations of Al Sadarah Investment Company; and
Others	includes the non-core lending portfolio of SME and Personal Loans to Self-Employed businesses as well as the Bank's 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.

28 SEGMENTAL ANALYSIS *(continued)*

Primary segment information (continued)

Segmental information for the year ended 31st December 2016 is as follows:

	Corporate banking AED'000	*Retail banking AED'000*	*Corporate banking AED'000*	*Others AED'000*	*Total AED'000*
Net interest income	**323,748**	**125,341**	**38,089**	**146,432**	**633,610**
Other operating income	**107,791**	**33,673**	**82,126**	**4,169**	**227,759**
Operating expenses	**(173,402)**	**(137,688)**	**(40,863)**	**(20,673)**	**(372,626)**
Net impairment losses	**(504,625)**	**(66,390)**	**-**	**(440,419)**	**(1,011,434)**
Profit / (Loss) for the year	**(246,488)**	**(45,064)**	**79,352**	**(310,491)**	**(522,691)**
Capital Expenditure - Property and equipment	**14,462**	**23,394**	**3,828**	**851**	**42,535**
At 31st December 2016					
Segment Assets	**10,688,533**	**3,367,086**	**6,555,320**	**640,605**	**21,251,544**
Segment Liabilities	**11,913,057**	**4,318,704**	**2,702,294**	**230,772**	**19,164,827**

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

	Corporate banking AED'000	Retail banking AED'000	Corporate banking AED'000	Others AED'000	Total AED'000
Net interest income	425,377	169,302	44,048	348,493	987,220
Other operating income	108,701	25,997	43,743	30,436	208,877
Operating expenses	(179,494)	(206,210)	(44,891)	(60,807)	(491,402)
Net impairment losses	(366,927)	(115,811)	-	(405,053)	(887,791)
Profit / (Loss) for the year	(12,343)	(126,722)	42,900	(86,931)	(183,096)
Capital Expenditure - Property and equipment	111,950	73,928	16,898	8,448	211,224
At 31st December 2015					
Segment Assets	11,290,675	4,087,197	6,499,088	1,786,663	23,663,623
Segment Liabilities	12,455,048	4,514,272	3,351,495	772,853	21,093,668

29 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:

31st December 2016	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
Available for sale investments				
Quoted				
Government debt securities	1,329,806	-	-	1,329,806
Other debt securities	1,974,790	-	-	1,974,790
Equities	9,081	-	-	9,081
Unquoted				
Equities	-	-	76	76
Total	3,313,677	-	76	3,313,753
Investment property	-	-	-	-
Derivative assets				
Forward contracts	-	100,963	-	100,963
Interest rate swaps	-	8,133	-	8,133
Currency swaps	-	867	-	867
Total	-	109,963	-	109,963
Total financial assets	3,313,677	109,963	76	3,423,716
Derivative liabilities				
Forward contracts	-	52,820	-	52,820
Interest rate swaps	-	29,120	-	29,120
Currency options	-	867	-	867
Total financial liabilities	-	82,807	-	82,807

29 FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

Financial Instruments and assets recorded at fair value (continued)

31st December 2015	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
Investments available-for-sale				
Quoted				
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
Total	2,559,274	-	76	2,559,350
Investment properties	-	96,000	-	96,000
Derivative assets				
Forward contracts	-	27,092	-	27,092
Interest rate swaps	-	1,142	-	1,142
Currency swaps	-	1,109	-	1,109
Total	-	29,343	-	29,343
Total financial assets	2,559,274	125,343	76	2,684,693
Derivative financial instruments				
Forward contracts	-	25,171	-	25,171
Interest rate swaps	-	43,182	-	43,182
Currency options	-	1,109	-	1,109
Total financial liabilities	-	69,462	-	69,462

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.

Investments available-for-sale

Financial investments valued using a valuation technique or pricing models primarily consist of unquoted equities. 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.

29 FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

Financial Instruments and assets recorded at fair value (continued)

Investment property

Investment properties are revalued based on fair value, which reflects market conditions at the reporting date. These valuation estimates are evaluated, at least annually, by an external, independent third party valuer based on a valuation model recommended by the International Valuation Standards Committee.

Movements in level 3 financial instruments measured at fair value

There was no movement between the levels of financial instruments during the year (2015: 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 (2015: 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.

30 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.

30 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:

	2016 AED'000	2015 AED'000 (Restated)
Risk Weighted Exposures		
Credit Risk	**15,037,547**	16,626,508
Market Risk	**172,276**	80,023
Operational Risk	**2,185,685**	2,279,017
Total Risk Weighted Exposures	**17,395,508**	18,985,548

	2016 AED'000	2015 AED'000
Tier I and II Capital		
Tier I Capital	**2,124,361**	2,647,725
Tier II Capital	**150,325**	130,061
Capital Base	**2,274,686**	2,777,786
Capital Ratio:		
Total regulatory capital as a percentage of total risk weighted assets	**13.1%**	14.6%
Total tier I regulatory capital as a percentage of total risk weighted assets	**12.2%**	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.

31 SOCIAL CONTRIBUTION

Social contributions made during the year amount to AED Nil (2015: AED 555,000)

32 PRIOR PERIOD ERRORS

Investment property revaluation

During the review of investment property, an error in the valuation of an investment property included in the financial statements of the Group for the year ended 31st December 2014 has been rectified in the current year. The result of the error was an overstatement of the carrying value of the investment property and the net profit for the year ended 31st December 2014 by AED 18,000,000. The impact of this error relating to the year ended 31st December 2014 has been adjusted against retained earnings as at 1st January 2015 and 1st January 2016.

Hedge ineffectiveness

The Bank invests in fixed rate bonds which are classified as available-for-sale and expose the Bank to fair value interest rate risk. In order to hedge this risk, the Bank enters into interest rate swaps (IRS) with various counterparties. The Bank has designated these interest rate swaps as hedging instruments and the bonds as hedged items.

During the current year, the Bank, with the assistance of an independent expert, performed hedge effectiveness tests for all its hedging relationships. Although these tests have met the hedge effectiveness criteria, under IAS 39, both retrospectively and prospectively, there was some ineffectiveness identified in respect of these relationships in previous years resulting in an overstatement of the Group's statement of income resulting in a cumulative loss of AED 32,096,000 as at 31st December 2015. This loss should have been reversed from the fair value reserve in equity and recognised in the income statement in prior years.

Therefore, as disclosed below, the loss pertaining to 2014 and amounting to AED 15,147,000 has been recognised in the retained earnings carried forward at 31st December 2014 which has been restated to rectify the error. Similarly, the loss of AED 16,949,000 relating to 2015 has been recognised in the comparative consolidated statement of income for the year ended 31st December 2015 which has, accordingly, been rectified and restated.

These effects of these prior period corrections on the Group's financial results are shown below:

Consolidated statement of financial position	***Investment Property AED'000***	***Retained Earnings AED'000***	***Cumulative Changes in Fair Value AED'000***
As at 31st December 2014			
As previously reported	110,794	914,759	(66,893)
Investment property revaluation	(18,000)	(18,000)	-
Hedge ineffectiveness	-	(15,147)	15,147
As restated	**92,794**	**881,612**	**(51,746)**

32 PRIOR PERIOD ERRORS *(continued)*

As at 31 December 2015	*Statement of Income AED'000*	*Statement of Other Compre-hensive Income AED'000*	*Investment Property AED'000*	*Retained Earnings AED'000*	*Cumulative Changes in Fair Value- AED'000*
As previously reported	(166,147)	(42,973)	96,000	404,890	(109,866)
2014 error carried forward impact:					
Investment property revaluation	-	-	(18,000)	(18,000)	-
Hedge ineffectiveness	-	-	-	(15,147)	15,147
2015 error impact:					
Hedge ineffectiveness	(16,949)	16,949	-	(16,949)	16,949
As restated	**(183,096)**	**(26,024)**	**78,000**	**354,794**	**(77,770)**

The balance sheet at 1st January 2015 has not been presented in these consolidated financial statements because the impact of the prior period errors relating to 2014 were not considered to be material in the context of the balance sheet as of that date

BASEL II - PILLAR 3 DISCLOSURES

UNITED ARAB BANK P.J.S.C.

BASEL II - PILLAR 3 DISCLOSURES

At 31st December 2016

These disclosures are being made in compliance with Circular No. 27/2009 dated 17th November 2009 issued by the Central Bank of the UAE and are in conformity with Basel II capital adequacy calculations for 31st December 2016 prepared in line with the circular. References have been made to the audited financial statements of 31st December 2016 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 31st December 2016.

A. CAPITAL STRUCTURE

Category	Summarized terms & conditions and main features	2016 AED'000	2015 AED'000
Tier 1 Capital			
1. Paid up share capital	Ordinary Shares of AED 1 each	**1,375,033**	1,375,033
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	**(167,856)**	355,508
Tier 1 Capital - Subtotal		**2,124,361**	2,647,725
Tier 2 Capital			
General provisions	In terms of rules laid down by the Central Bank of the UAE	**187,969**	207,831
Revaluation reserve	Revaluation reserve on Bank's property assets	**673**	714
Cumulative changes in fair values	Unrealized loss on available-for-sale investments	**(38,317)**	(77,770)
Less: Deductions for inadmissible items	Revaluation reserve on Bank's property assets	**-**	(714)
Tier 2 Capital - Subtotal		**150,325**	130,061
Tier 3 Capital		**-**	-
Total eligible Capital after deductions - Capital Base		**2,274,686**	2,777,786

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 17th 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 17th 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	**2016 AED'000**	2015 AED'000
Risk Weighted Assets		
1. Credit Risk - Standardized Approach	**15,037,54**	16,626,508
2. Market Risk - Standardized Approach	**172,276**	80,023
3. Operational Risk - Basic Indicator Approach	**2,185,685**	2,279,017
Total Risk Weighted Assets	**17,395,508**	18,985,548
Capital Base	**2,274,686**	2,777,786
Capital Ratio (%)		
a. Total for the Group	**13.1%**	14.6%
b. Tier 1 ratio only for the Group	**12.2%**	13.9%

C. CREDIT RISK UNDER STANDARDIZED APPROACH

1. Details of Exposures, Risk Mitigants and Risk Weighted Assets as at 31st December 2016:

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	3,574,465	-	3,574,465	-	3,574,465	3,574,465	-
Claims on Non-Central Govt Public Sector Entities (PSEs)	1,281,284	-	1,281,284	-	1,281,284	1,281,284	-
Claims on Multi Lateral Development Banks	-	-	-	-	-	-	-
Claims on Banks	1,706,116	-	1,706,116	-	1,706,116	1,609,416	872,277
Claims on Securities Firms	-	-	-	-	-	-	-
Claims on Corporates	12,931,286	-	12,931,286	-	12,931,286	11,670,674	9,828,119
Claims included in the Regulatory Retail Portfolio	1,636,796	-	1,636,796	-	1,636,796	1,636,796	1,249,469
Claims secured by Residential Property	1,874,392	-	1,874,392	-	1,874,392	1,874,392	700,223
Claims secured by Commercial Real Estate	653,889	-	653,889	-	653,889	653,889	653,889
Past Due Loans	820,004	(577,590)	242,414	-	242,414	242,414	264,129
Higher-Risk Categories	-	-	-	-	-	-	-
Other Assets	1,572,885	-	1,572,885	-	1,572,885	1,572,885	1,469,441
Claims on Securitized Assets	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-	-
TOTAL	26,051,117	(577,590)	25,473,527	-	25,473,527	24,116,215	15,037,547

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

Details of Exposures by Industry Segment as at 31st December 2016:

Category	On and Off Balance Sheet Exposures 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	1,637,661	-	1,637,661	-	1,637,661	1,637,661	1,502,240
Claims on Securitized Assets	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-	-
TOTAL	28,157,852	(422,391)	27,735,461	-	27,735,461	26,352,916	16,626,508

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

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

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	-	-	-	-	-	-	-
Extractive Industries	**41,262**	-	-	**41,262**	**6,879**	**6,879**	**48,141**
Manufacturing Industries	**1,781,030**	-	**167,888**	**1,948,918**	**794,382**	**794,382**	**2,743,300**
Electricity, Gas and Water	**15,233**	-	-	**15,233**	**23,872**	**23,872**	**39,105**
Construction	**771,602**	-	**58,921**	**830,523**	**1,380,436**	**1,380,436**	**2,210,959**
Wholesale / Retail Trade	**2,402,202**	-	**364,015**	**2,766,217**	**664,019**	**664,019**	**3,430,236**
Restaurants and Hotels	-	-	-	-	-	-	-
Transportation, Storage and Communication	**396,103**	-	-	**396,103**	**191,880**	**191,880**	**587,983**
Real Estate and Business Services	-	-	-	-	-	-	-
Social and Private Services	**1,435,930**	-	**25,586**	**1,461,516**	**234,626**	**234,626**	**1,696,142**
Financial Services Sector	**1,224,798**	**414,414**	**3,232,067**	**4,871,279**	**397,516**	**397,516**	**5,268,795**
Government	**600,868**	**2,890,182**	-	**3,491,050**	-	-	**3,491,050**
Household / Personal	**5,646,201**	-	-	**5,646,201**	**116,627**	**116,627**	**5,762,828**
Others	**19,325**	-	**752,906**	**772,231**	**347**	**347**	**772,578**
Total	**14,334,554**	**3,304,596**	**4,601,383**	**22,240,533**	**3,810,584**	**3,810,584**	**26,051,117**

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

Details of Exposures by Industry Segment as at 31st 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	-	845,879	848,150	214	214	848,364
Total	16,490,656	2,559,350	5,432,641	24,482,647	3,675,205	3,675,205	28,157,852

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, only ratings assigned by ECAIs (External Credit Assessment Institutions) as approved by the Central Bank of the UAE are considered. Acceptable ECAI agencies are Moody's, Fitch and S&P

b) Quantitative Disclosures

Gross Exposure before Credit Risk Mitigants (CRM)

Category	2016			2015		
	Rated AED'000	Unrated AED'000	Total AED'000	Rated AED'000	Unrated AED'000	Total AED'000
Claims on Sovereigns	**3,265,584**	**308,881**	**3,574,465**	3,145,257	60,850	3,206,106
Claims on Non-Central Govt Public Sector Entities (PSEs)	**336,136**	**945,148**	**1,281,284**	576,731	866,680	1,443,411
Claims on Multi Lateral Development Banks	**-**	**-**	**-**	-	-	-
Claims on Banks	**1,402,674**	**303,442**	**1,706,116**	2,093,384	139,344	2,232,729
Claims on Securities Firms	**-**	**-**	**-**	-	-	-
Claims on Corporates	**1,045,798**	**11,885,487**	**12,931,285**	993,278	11,765,193	12,758,471
Claims included in the Regulatory Retail Portfolio	**-**	**1,636,797**	**1,636,797**	-	2,560,913	2,560,913
Claims secured by Residential Property	**-**	**1,874,392**	**1,874,392**	-	2,070,451	2,070,451
Claims secured by Commercial Real Estate	**-**	**653,889**	**653,889**	-	1,586,960	1,586,960
Past Due Loans	**-**	**242,414**	**242,414**	-	238,759	238,759
Higher-Risk Categories	**-**	**-**	**-**	-	-	-
Other Assets	**8,816**	**1,564,069**	**1,572,885**	9,336	1,628,325	1,637,661
Claims on Securitized Assets	**-**	**-**	**-**	-	-	-
Credit Derivatives (Banks Selling Protection)	**-**	**-**	**-**	-	-	-
TOTAL	**6,059,008**	**19,414,519**	**25,473,527**	6,817,986	20,917,475	27,735,461

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 27 "Risk Management – Currency Risk" of the Notes to the Financial Statements as at 31st December 2016.

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 27 "Risk Management – Credit Risk" of the Notes to the Financial Statements as at 31st December 2016.

6. Exposure by Economic Sector

For details kindly refer to Note 27 "Risk Management" of the Notes to the Financial Statements as at 31st December 2016.

7. Exposures by Residual Contractual Maturity

For details kindly refer to Note 27 "Risk Management – Liquidity Risk" of the Notes to the Financial Statements as at 31st December 2016.

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 31st December 2016:

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	-	-	-	32	-	-
Extractive Industries	-	-	-	-	-	-
Manufacturing Industries	49,316	6,674	205	13,566	66,499	42,230
Electricity, Gas and Water	-	-	-	-	10,844	27
Construction	2,023	-	-	7,508	23,614	23,165
Wholesale / Retail Trade	11,349	5,061	2,202	184,096	256,572	186,635
Restaurants and Hotels	-	-	-	-	-	-
Transportation, Storage and Communication	9,562	243	400	587	1,983	1,880
Real Estate and Business Services	3,920	-	-	-	-	-
Social and Private Services	2,481	129	19,415	346	333,005	264,503
Financial Services Sector	63	-	-	-	-	-
Government	-	-	-	-	-	-
Household / Personal	12,725	3,512	4,228	9,106	132,785	59,150
Total	91,439	15,619	26,450	215,241	825,302	577,590

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

b) Quantitative Disclosures *(continued)*

Past due and impaired Loans by Industry Segment as at 31st 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	61,685	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	133	-	-	-	-	-
Government	-	-	-	-	-	-
Household / Personal	41,846	17,493	5,531	27,522	208,872	71,803
Total	226,676	165,130	136,024	155,590	661,150	422,391

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

b) Quantitative Disclosures *(continued)*

Past due and impaired loans by Geographic Region as at 31st December 2016:

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	**91,439**	**15,619**	**26,450**	**215,241**	**825,302**	**577,590**
Total	**91,439**	**15,619**	**26,450**	**215,241**	**825,302**	**577,590**

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	226,676	165,130	136,024	155,590	661,150	422,391
Total	226,676	165,130	136,024	155,590	661,150	422,391

Reconciliation of changes in Provision for Impaired Loans

	2016 AED'000	*2015 AED'000*
Balance as at 1st January	**819,025**	525,531
Add: Charge for the year		
Specific Provisions	**1,203,795**	904,031
General Provisions	**1,500**	30,830
Less: Write off of impaired loans	**(859,594)**	(609,155)
Less: Recovery of loans previously written off	**-**	-
Less: Write back of provisions for loans	**(175,734)**	(32,212)
Less: Adjustments of loan loss provisions	**-**	-
Balance as at 31st December	**988,992**	819,025

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	2016 AED'000	2015 AED'000
Gross Exposure prior to Credit Risk Mitigation	**25,473,529**	27,735,461
Credit Risk Mitigants		
- Direct Deductions:		
Exposure covered by on-balance sheet netting	**-**	-
- Substitution by Risk Weights:		
Exposure covered by Guarantees		
from 100%	**-**	-
to 20%	**-**	-
50%	**-**	-
100%	**-**	-
Exposures covered by collaterals under simple approach		
from 150%		
from 100%	**(1,233,232)**	(1,243,424)
from 75%	**-**	-
to 0%	**1,233,232**	1,243,424
Net Exposures after Credit Risk Mitigation	**25,473,529**	27,735,461
Risk Weighted Assets	**15,037,547**	16,626,508

D. MARKET RISK UNDER STANDARDISED APPROACH

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

	2016 Capital Required *AED'000*	2015 Capital Required *AED'000*
Interest rate risk	**20,594**	9,474
Equity position risk	**-**	-
Foreign exchange risk	**79**	129
Commodity risk	**-**	-
Options risk	**-**	-
Total Capital Requirement	**20,673**	9,068
Risk Weighted Assets (Capital requirement divided by 12%)	**172,276**	80,023

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 31st December 2015, including the effect of hedging instruments.

	2016		*2015*	
	Change in basis points	**Sensitivity of Interest Income *AED'000***	Change in basis points	Sensitivity of Interest Income *AED'000*
All currencies	**+200**	**128,412**	+200	61,680
All currencies	**-200**	**(128,412)**	-200	(61,680)

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 8 "Investments" of Notes to the Financial Statements at 31st December 2016.

4. Foreign Exchange Risk

For details of Foreign Exchange Risk on both trading and banking books please refer Note 27 "Risk Management – Currency Risk" of the Notes to the Financial Statements at 31st December 2016. As the AED is pegged to the USD, positions in USD and other GCC currencies pegged to the USD are excluded.

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 fair value hedges through Equity. Details of such charges are provided in "Consolidated Statement of Other Comprehensive Income" in the Financial Statements at 31st December 2016.

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

	2016 ***AED'000***	2015 *AED'000*
Amount added to / (deducted from) in Tier 1 capital	**-**	-
Amount added to / (deducted from) in Tier 2 capital	**(38,317)**	(77,770)
Total	**(38,317)**	(77,770)

E. OPERATIONAL RISK – BASIC INDICATOR APPROACH

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

		2016 ***AED'000***		2015 *AED'000*
Gross Income (including Interest in suspense)	**2014**	**1,376,855**	2013	1,050,593
	2015	**1,218,979**	2014	1,376,855
	2016	**901,262**	2015	1,218,979
		3,497,096		3,646,427
3-year average		**1,165,699**		1,215,476
Beta factor		**15%**		15%
Capital requirement before applying National Discretion		**174,855**		182,321
UAE National Discretion Factor		**1.5**		1.5
Capital requirement after applying National Discretion		**262,282**		273,482
Risk Weighted Assets equivalent (Capital requirement divided by 12 %)		**2,185,685**		2,279,017