

United Arab Bank P.J.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015



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Independent Auditors' Report

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

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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



Report on Other Legal and Regulatory Requirements

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

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- v) as disclosed in note 12 to the consolidated financial statements, the Group has not purchased any shares during the year ended 31 December 2015;
- vi) note 20 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2015 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2015; and
- viii) note 27 to the consolidated financial statements discloses the social contributions made during the year.

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

KPMG Lower Gulf Limited

Date: 24 January 2016

Muhammad Tariq

Registered Auditor Number: 793

Place: Dubai, United Arab Emirates

United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2015

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

The attached notes 1 to 27 form part of these consolidated financial statements.
The Independent Auditors' report is set out on pages 1 and 2.

United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

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

The attached notes 1 to 27 form part of these consolidated financial statements.
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United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

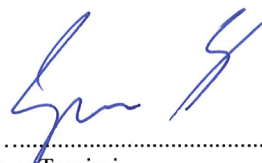
At 31 December 2015

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

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



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



.....
Samer Tamimi
Acting Chief Executive Officer

The attached notes 1 to 27 form part of these consolidated financial statements.
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United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	<i>Notes</i>	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
OPERATING ACTIVITIES			
(Loss) / profit for the year		(166,147)	605,408
Items not involving cash flow:			
Depreciation	8	31,465	26,508
Loss on write off of property and equipment	8	1,156	-
Provision for credit losses	7	887,791	374,075
Amortisation of premium paid on investments		14,189	-
Items considered separately:			
Net gain on sale of investments		(9,662)	(42,706)
Fair valuation gain on investment properties	13	-	(42,248)
Gain on sale of investment properties	13	(1,089)	(4,277)
Changes in operating assets and liabilities:			
Loans and advances		1,381,481	(3,029,497)
Due from UAE Central Bank		228,452	(385,690)
Due from banks maturing after three months		(91,807)	-
Cash margin held by counterparty banks against borrowings and derivative transactions	11	(20,920)	(35,881)
Other assets	14	190,968	194,582
Due to banks maturing after three months		519,193	(567,035)
Customers' deposits	15	(1,943,254)	3,683,460
Other liabilities	17	(249,005)	(101,988)
Net cash flows from operating activities		772,811	674,711
INVESTING ACTIVITIES			
Purchase of property and equipment	8	(211,224)	(223,331)
Purchase of investment properties	13	-	(2,544)
Purchase of investments		(2,873,787)	(6,400,811)
Proceeds from redemption / sale of investments		2,767,644	5,588,363
Proceeds from sale of investment properties		15,883	12,077
Net cash flows used in investing activities		(301,484)	(1,026,246)
FINANCING ACTIVITIES			
Medium term borrowings	16	293,894	367,210
Directors' remuneration		(10,800)	(10,800)
Cash dividends paid		(114,586)	(149,460)
Net cash flows from financing activities		168,508	206,950
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		639,835	(144,585)
Cash and cash equivalents at 1 January		1,970,311	2,114,896
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		2,610,146	1,970,311
Cash and cash equivalents comprise the following statement of financial position amounts with original maturities of three months or less:			
Cash and balances with UAE Central Bank		2,054,020	560,774
Due from banks maturing within three months		707,669	1,889,241
Due to banks maturing within three months		(151,543)	(479,704)
		2,610,146	1,970,311

The attached notes 1 to 27 form part of these consolidated financial statements.
The Independent Auditors' report is set out on pages 1 and 2.

United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

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

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United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

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

The attached notes 1 to 27 form part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

1 INCORPORATION AND ACTIVITIES

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

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

Investment in subsidiary

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

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

2 BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

Significant management judgements and estimates

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 BASIS OF PREPARATION (continued)

Significant management judgements and estimates (continued)

Classification of investments

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

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

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

All other investments are classified as available for sale.

Going concern

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

Fair value of financial instruments

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

Impairment of investments

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

Impairment losses on loans and advances

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

<i>Name</i>	<i>Legal Status</i>	<i>Beneficial ownership</i>	<i>Country of incorporation</i>	<i>Principal activities</i>
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.

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

If the Group loses control over a subsidiary, it:

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

Revenue recognition

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

Cash and cash equivalents

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

Due from banks

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

Financial instruments

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

Classification

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

- Financial assets at fair value through profit or loss: This category has two sub-categories (a) financial assets held for trading and (b) those designated to be fair valued through profit or loss ("FVPL") at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.
- Loans and advances: This category comprises of non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the Group provides money directly to the borrower with no intention of trading the receivable.
- Held-to-maturity: Investments classified as held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention of, and the ability to, hold to maturity.
- Available-for-sale: Investments classified as Available-for-sale are those non-derivative financial assets that are designated as available-for-sale or not classified as (a) loans and advances; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss.

Recognition and initial measurement

The Group initially recognises loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

De-recognition

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Subsequent measurement

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

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

Gains and losses on subsequent measurement

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

Amortised cost measurement principles

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal re-payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

Investment properties

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

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

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

Property and equipment

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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

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

Employees' end of service benefits

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

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

Provisions

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

Financial guarantees

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

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

Leases

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

Derivatives

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives (continued)

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

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

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

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

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

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

- in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the consolidated statement of income over the remaining term to maturity;
- in the case of cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained therein as "cumulative changes in fair value" until the forecasted transaction occurs. When such a transaction occurs, the gain or loss retained in cumulative changes in fair values is recognised in the consolidated statement of income or included in the initial measurement of the cost of the related asset or liability, as appropriate. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in cumulative changes in fair values is transferred to the consolidated statement of income.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets

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

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

(i) Financial assets carried at amortised cost

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets (continued)

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

See Note 7 for details of impairment losses on financial assets carried at amortised cost and an analysis of the impairment allowance on loans and advances.

(ii) Available-for-sale financial investments

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

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

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

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

(iii) Renegotiated loans

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

Impairment of non-financial assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and settlement date accounting

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

Fiduciary assets

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

Offsetting

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

Foreign currencies

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

Segment reporting

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

Dividends on ordinary shares

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

New standards and interpretations not yet adopted

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

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

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

4 INTEREST INCOME

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

5 INTEREST EXPENSE

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

6 OTHER OPERATING INCOME

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

7 LOANS AND ADVANCES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

7 LOANS AND ADVANCES (continued)

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

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

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

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

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

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

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

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

Collateral repossessed

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

8 PROPERTY AND EQUIPMENT

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

9 EARNINGS PER SHARE

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

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

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

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

10 CASH AND BALANCES WITH UAE CENTRAL BANK

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

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

11 DUE FROM BANKS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

12 INVESTMENTS

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

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

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

13 INVESTMENT PROPERTIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

14 OTHER ASSETS

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

15 CUSTOMERS' DEPOSITS

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

16 MEDIUM TERM BORROWINGS

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

17 OTHER LIABILITIES

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

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

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:

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

18 SHARE CAPITAL AND RESERVES

a) Share capital

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

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

b) Special reserve

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

18 SHARE CAPITAL AND RESERVES (continued)

d) General reserve

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

e) Revaluation reserve

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

f) Dividends

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

19 CUMULATIVE CHANGES IN FAIR VALUES

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

20 RELATED PARTY TRANSACTIONS

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

	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
<i>Key management personnel of the Group:</i>		
Loans and advances	<u>15,893</u>	<u>19,619</u>
Customers' deposits	<u>28,035</u>	<u>42,389</u>
<i>Shareholders:</i>		
Due from banks	<u>3,182</u>	<u>2,609</u>
Due to banks	<u>1,752</u>	<u>3,575</u>
Medium term borrowings	<u>141,703</u>	<u>141,695</u>
<i>Directors:</i>		
Loans and advances	<u>3,241</u>	<u>55,774</u>
Customers' deposits	<u>37,065</u>	<u>14,459</u>
Commitments and contingencies	<u>45</u>	<u>45</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

20 RELATED PARTY TRANSACTIONS (continued)

	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
<i>Other related entities:</i>		
Loans and advances	248,611	350,670
Investments	9,336	12,024
Due from banks	111,965	66,492
Due to banks	12	-
Customers' deposits	308,659	224,843
Commitments and contingencies	297,791	342,519
<i>Shareholders, directors, their related entities and key management personnel</i>		
Accrued interest income	4,231	1,350
Accrued interest expense	1,066	895

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

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

Terms and conditions of transactions with related parties

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

Compensation of key management personnel is as follows:

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

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At 31 December 2015

20 RELATED PARTY TRANSACTIONS (continued)

	2015	2014
Number of key management personnel	<u>26</u>	<u>23</u>

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

21 DERIVATIVES

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

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

At 31 December 2015

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

21 DERIVATIVES (continued)

At 31 December 2014

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

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

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

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

Derivative product types***Forward Contracts***

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

Options

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

Swaps

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

21 DERIVATIVES (continued)*Derivative related credit risk*

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

Purpose of derivatives

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

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

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

22 CONTINGENT LIABILITIES AND COMMITMENTS*Credit related commitments*

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

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

The Group has the following credit related commitments:

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

23 RISK MANAGEMENT

Introduction

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

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

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

Risk Management Structure

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

Board Credit Committee

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

Board Audit Committee

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

Board Risk Committee

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

Risk Management Group

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

Group Treasury

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

Internal Audit

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)

Introduction (continued)

Risk Measurement and Reporting Systems

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

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

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

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

Risk Mitigation

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

The Group actively uses collateral to reduce its credit risks.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)**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.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)

Credit Risk (continued)

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

Risk concentrations of the maximum exposure to credit risk

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

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

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

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

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

Collateral and other credit enhancements

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

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

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At 31 December 2015

23 RISK MANAGEMENT (continued)
Credit Risk (continued)

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

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

Credit quality per class of financial assets

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)

Credit Risk (continued)

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

	<i>Less than 30 days 2015 AED'000</i>	<i>31 to 60 days 2015 AED'000</i>	<i>61 to 90 days 2015 AED'000</i>	<i>More than 91 days 2015 AED'000</i>	<i>Total 2015 AED'000</i>
Loans and advances	<u>489,415</u>	<u>217,765</u>	<u>168,950</u>	<u>129,448</u>	<u>1,005,578</u>
	<i>2014 AED'000</i>	<i>2014 AED'000</i>	<i>2014 AED'000</i>	<i>2014 AED'000</i>	<i>2014 AED'000</i>
Loans and advances	<u>414,038</u>	<u>91,829</u>	<u>45,288</u>	<u>68,373</u>	<u>619,528</u>

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

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

	<i>2015 AED'000</i>	<i>2014 AED'000</i>
Loans and advances	<u>708,554</u>	<u>478,893</u>

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:

	<i>2015</i>	<i>2014</i>
Lending to Stable Resources Ratio	81.0%	85.8%
Eligible Liquid Assets Ratio	18.7%	-
Liquid Assets Ratio	-	11.5%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 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 31 December 2015 is as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)
Liquidity risk (continued)
Analysis of financial liabilities by remaining contractual maturities

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

Financial Liabilities	<i>On demand</i> <i>AED '000</i>	<i>Less than 3</i> <i>months</i> <i>AED '000</i>	<i>3 to 12</i> <i>months</i> <i>AED '000</i>	<i>1 to 5 years</i> <i>AED '000</i>	<i>Over</i> <i>5 years</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2015						
Due to banks	6,458	145,230	522,613	369,442	-	1,043,743
Customers' deposits	5,126,022	7,257,186	3,770,944	749,481	-	16,903,633
Medium term borrowings	-	319,552	-	2,075,902	-	2,395,454
Other liabilities	141,452	478,706	140,796	30,695	-	791,649
Financial derivatives	-	6,682	20,045	101,236	74,227	202,190
Total undiscounted financial liabilities	5,273,932	8,207,356	4,454,398	3,326,756	74,227	21,336,669
31 December 2014						
Due to banks	10,936	468,836	369,283	-	-	849,055
Customers' deposits	8,488,148	4,228,376	4,674,275	1,463,779	-	18,854,578
Medium term borrowings	-	-	281,677	1,790,018	-	2,071,695
Other liabilities	209,535	578,589	226,817	27,081	-	1,042,022
Financial derivatives	-	4,949	14,845	76,088	56,026	151,908
Total undiscounted financial liabilities	8,708,619	5,280,750	5,566,897	3,356,966	56,026	22,969,258

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)
Liquidity risk (continued)
Analysis of financial liabilities by remaining contractual maturities (continued)

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

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

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

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

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)
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:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)
Interest rate risk (continued)

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

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

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

Currency	2015		2014	
	<i>Change in basis points</i>	<i>Sensitivity of net interest income AED '000</i>	<i>Change in basis points</i>	<i>Sensitivity of net interest income AED '000</i>
All currencies	+25	7,710	+25	3,122
All currencies	-25	(7,710)	-25	(3,122)

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

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At 31 December 2015

23 RISK MANAGEMENT (continued)**Currency risk**

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

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

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

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

Operational risk

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

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24 SEGMENTAL ANALYSIS

Primary segment information

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

- Retail banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities as well as Islamic banking services;
- Corporate banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
- Others - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations, Al Sadarah Investment Company, the SME business and head office functions.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

24 SEGMENTAL ANALYSIS (continued)

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

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

Secondary segment information

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

25 FAIR VALUES OF FINANCIAL INSTRUMENTS**Determination of fair value and fair value hierarchy**

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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:

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

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At 31 December 2015

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Financial instruments and assets recorded at fair value (continued)

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

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

Derivatives

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

Financial investments – available-for-sale

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

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At 31 December 2015

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Financial instruments and assets recorded at fair value (continued)

Movements in level 3 financial instruments measured at fair value

There was no movement between the levels of financial instruments during the year (2014: AED Nil).

Gains or losses on level 3 financial instruments included in the profit or loss for the year:

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

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

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

Financial instruments not recorded at fair value

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

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

Asset for which fair value approximates carrying value

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

Fixed rate financial instruments

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

26 CAPITAL ADEQUACY

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

Capital management

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

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

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At 31 December 2015

26 CAPITAL ADEQUACY (continued)

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

	<i>2015</i>	<i>2014</i>
	<i>AED'000</i>	<i>AED'000</i>
Risk Weighted Exposures		
Credit Risk	16,615,165	19,424,576
Market Risk	80,023	75,568
Operational Risk	2,279,017	1,999,763
Total Risk Weighted Exposures	18,974,205	21,499,907
Tier I and II Capital		
Tier I Capital	2,697,107	2,977,804
Tier II Capital	97,824	175,914
Capital Base	2,794,931	3,153,718
Capital Ratio:		
Total regulatory capital as a percentage of total risk weighted assets	14.7%	14.7%
Total tier I regulatory capital as a percentage of total risk weighted assets	14.2%	13.9%

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

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

27 SOCIAL CONTRIBUTION

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