

Emirates Investment Bank P.J.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

REPORT OF THE BOARD OF DIRECTORS
For the year ended 31 December 2015

The Directors are pleased to place before the shareholders of Emirates Investment Bank PJSC ("Bank") the consolidated financial statements for the year ended 31 December 2015.

During the past few years, the Bank has been repositioning itself with the objective of becoming a leading private and investment banking boutique serving a select client base of high net worth individuals and institutional clients. During 2015, we continued to execute on this strategy while simultaneously building the infrastructure required for growth.

The Bank closed 2015 with an annual net profit of AED 28.1 million, a decrease of 39% over the previous year (AED 46.2 million), while maintaining a healthy Capital Adequacy Ratio at 16.09% (Tier I Adequacy Ratio of 15.59%). Over this period, customer deposits grew by 6% to reach AED 3,170 million (AED 2,985 million in 2014), while total balance sheet assets reached AED 3,568 million, an increase of 2% over the previous year (AED 3,505 million).

Notably, the value of Bank's fiduciary assets grew by 43% to AED 6,043 million (AED 4,215 million in 2014) for a total assets under custody and management of AED 9,611 million (AED 7,720 million in 2014).

It is proposed that this year's profit be appropriated as follows:

	<i>AED</i>
- Transfer to legal reserve in accordance with the requirements of Article 58(1) of the Articles of association of the Bank	2,500,000
- Transfer to special reserve in accordance with the requirements of Article 58(2) of the Articles of association of the Bank	2,813,400
- Stock Dividend: 7.143% of Paid up Capital	5,000,000

As we continue our journey to build a leading private and investment banking boutique, we extend our gratitude to our clients for their support and to our staff for their dedication and hard work.

Board of Directors
15 February 2016

Dubai, United Arab Emirates



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES INVESTMENT BANK P.J.S.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Emirates Investment Bank P.J.S.C. (the "Bank"), and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of income, other comprehensive income, cash flows and changes in equity for the year then ended, and 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 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.

Auditor's 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 financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial position of the Group as of 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES INVESTMENT BANK P.J.S.C. (continued)

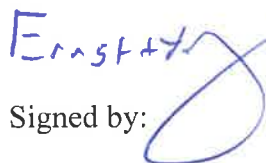
Report on other legal and regulatory requirements

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, and the Memorandum and Articles of Association of the Bank;
- iii) the Group has maintained proper books of account;
- iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;
- v) investments in shares and stocks are included in note 12 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2015;
- vi) note 22 reflects the disclosures relating to 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 Bank 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 of its Memorandum and Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2015; and
- viii) based on the information that has been made available to us, no social contributions were made during the year.

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

For Ernst & Young



Signed by:
Anthony O'Sullivan
Partner
Registration No. 687

15 February 2016

Dubai, United Arab Emirates

Emirates Investment Bank P.J.S.C.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2015

	<i>Notes</i>	2015 AED'000	2014 AED'000
Interest income	4	35,795	34,141
Net income from investments	5	79,041	93,785
		114,836	127,926
Interest expense		(34,038)	(41,926)
NET INTEREST INCOME AND NET INCOME FROM INVESTMENTS		80,798	86,000
Other income	6	28,211	18,334
Exchange gain – net		2,355	6,351
OPERATING INCOME		111,364	110,685
General and administrative expenses	7	(67,690)	(51,885)
Impairment loss on available-for-sale investments		(23,200)	(4,556)
Impairment loss on investments carried at cost	12	(40)	(40)
Impairment reversal/ (loss) on loans and advances	11	7,700	(7,970)
OPERATING EXPENSES		(83,230)	(64,451)
PROFIT FOR THE YEAR		28,134	46,234
BASIC AND DILUTED EARNINGS PER SHARE	8	40.19	66.05

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

	<i>Note</i>	2015 AED'000	2014 AED'000
PROFIT FOR THE YEAR		28,134	46,234
Other comprehensive loss to be reclassified to the income statement in subsequent years			
Net unrealised (loss)/ gain on available-for-sale investments		(29,248)	17,527
Net realised gain transferred to income statement on disposal of available-for-sale investments	5	(33,492)	(33,172)
Impairment of available-for-sale investments recognised in the income statement		23,200	4,556
Other comprehensive loss for the year		(39,540)	(11,089)
Total comprehensive (loss)/ income for the year		(11,406)	35,145

Emirates Investment Bank P.J.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

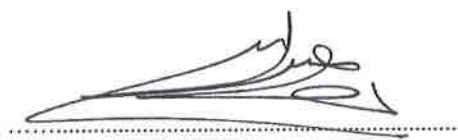
As at 31 December 2015

	Notes	2015 AED'000	2014 AED'000
ASSETS			
Cash and balances with UAE Central Bank	9	338,821	236,787
Due from banks	10	1,431,449	1,042,798
Loans and advances, net	11	307,794	573,251
Investments	12	1,467,209	1,628,693
Investment in an associate	13	72	72
Property and equipment	14	5,073	4,834
Other assets	15	18,005	18,343
TOTAL ASSETS		3,568,423	3,504,778
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	16	34,402	130,883
Customer deposits		3,170,385	2,985,063
Other liabilities	17	35,303	49,093
TOTAL LIABILITIES		3,240,090	3,165,039
EQUITY			
Share capital	18	70,000	65,000
Legal reserve	18	35,000	32,500
Special reserve	18	31,797	28,984
Cumulative changes in fair values		12,708	52,248
Retained earnings		178,828	161,007
TOTAL EQUITY		328,333	339,739
TOTAL LIABILITIES AND EQUITY		3,568,423	3,504,778

The financial statements were approved by the Board of Directors on 15 February 2016 and signed on its behalf by:



Omar Abdulla Al Futtaim
(Chairman)



Buti Obaid Al Mulla
(Director)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	<i>Notes</i>	2015 AED'000	2014 AED'000
OPERATING ACTIVITIES			
Profit for the year		28,134	46,234
Adjustments for:			
Depreciation	14	2,038	1,491
Loss on sale of property and equipment		-	1
Impairment loss on available-for-sale investments		23,200	4,556
Impairment loss on investments carried at cost	12	40	40
Impairment (reversal)/ loss on loans and advances		(7,700)	7,970
Changes in due to banks with original maturities of over three months		(56,931)	(486,857)
Change in loans and advances (net)		273,157	(472,443)
Change in other assets		338	9,745
Change in investments (net)		98,704	683,897
Change in customers' deposits		185,322	1,309,951
Change in other liabilities		(13,790)	18,868
Net cash from operating activities		532,512	1,123,453
INVESTING ACTIVITIES			
Purchase of property and equipment	14	(2,277)	(1,452)
Cash used in investing activities		(2,277)	(1,452)
NET INCREASE IN CASH AND CASH EQUIVALENTS		530,235	1,122,001
Cash and cash equivalents at 1 January		1,205,633	83,632
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		1,735,868	1,205,633
Cash and cash equivalents comprise the following amounts in the statement of financial position with original maturities of three months or less:			
Cash and balances with Central Bank		338,821	236,787
Due from banks		1,431,449	1,042,798
Due to banks		(34,402)	(73,952)
		1,735,868	1,205,633
Operational cash flows from interest and dividends			
Interest paid		51,208	29,955
Interest received (including from investments)		70,683	82,712
Dividend received		14,658	19,422

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

Emirates Investment Bank P.J.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Share capital AED '000	Legal reserve AED '000	Special reserve AED '000	Cumulative changes in fair values AED '000	Retained earnings AED '000	Total AED '000
At 1 January 2015	65,000	32,500	28,984	52,248	161,007	339,739
Profit for the year	-	-	-	-	28,134	28,134
Other comprehensive loss for the year	-	-	-	(39,540)	-	(39,540)
Total comprehensive income for the year	-	-	-	(39,540)	28,134	(11,406)
Transfers	-	2,500	2,813	-	(5,313)	-
Scrip dividend – relating to 2014 (note 19)	5,000	-	-	-	(5,000)	-
Balance at 31 December 2015	70,000	35,000	31,797	12,708	178,828	328,333

Emirates Investment Bank P.J.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Share capital AED '000	Legal reserve AED '000	Special reserve AED '000	Cumulative changes in fair values AED '000	Retained earnings AED '000	Total AED '000
At 1 January 2014	60,000	30,000	24,361	63,337	126,896	304,594
Profit for the year	-	-	-	-	46,234	46,234
Other comprehensive loss for the year	-	-	-	(11,089)	-	(11,089)
Total comprehensive income for the year	-	-	-	(11,089)	46,234	35,145
Transfers	-	2,500	4,623	-	(7,123)	-
Scrip dividend – relating to 2013 (note 19)	5,000	-	-	-	(5,000)	-
Balance at 31 December 2014	65,000	32,500	28,984	52,248	161,007	339,739

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

1 INCORPORATION AND ACTIVITIES

Emirates Investment Bank P.J.S.C. (the “Bank”) was incorporated on 17 February 1976 in Dubai, United Arab Emirates by a decree of HH The Ruler of Dubai. In 1999, the Bank was registered under the UAE Commercial Companies Law No. (8) of 1984 (as amended) as a Public Joint Stock Company. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 28 June 2015, replacing the existing Federal Law No. 8 of 1984. The Bank is currently assessing the impact of the new law and expects to be fully compliant on or before the end of the grace period on 28 June 2016. During 2010, the Bank changed its name to Emirates Investment Bank PJSC. The Bank is engaged in the business of private banking and investment banking. The address of the Bank’s registered office is P. O. Box 5503, Dubai, United Arab Emirates.

The consolidated financial statements for the year ended 31 December 2015 comprise the financial statements of the Bank and its subsidiary (together referred to as the “Group”).

The Bank is a subsidiary of Al Futtaim Private Company LLC which holds 52.85% (2014: 52.85%) of the shares in the Bank.

2 BASIS OF PREPARATION

2.1 Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for the measurement of derivatives, available-for-sale investments and investments at fair value through profit or loss which are measured at fair value.

The financial statements have been presented in UAE Dirhams which is the functional currency of the Bank and all values are rounded to the nearest thousand (AED ‘000) except where otherwise stated.

2.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) issued by the International Accounting Standards Board (IASB), and applicable requirements of the United Arab Emirates laws.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary (a special purpose entity) as at 31 December 2015. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if, and only if, the Bank has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting or similar rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Bank considers all relevant facts and circumstances in assessing whether or not the Bank’s voting rights in an investee are sufficient to give it power, including:

- the size of the Bank’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from the contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at shareholders’ meetings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Special purpose entities (SPE)

A SPE is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual arrangements. SPE are entities that often have restricted activities and are created to accomplish a narrow and well-defined objective such as the securitisation of assets or the execution of a specific financing transaction. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank and the SPE's risk and rewards, the Bank concludes that it controls the SPE.

The following circumstances may indicate a relationship in which, in substance, the Bank controls and consequently consolidates a SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation;
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; or
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and reassessed at each statement of financial position date.

EIB Enhanced Liquidity Fund Limited (the Company), a SPE in which the Bank exercises control, is consolidated in these consolidated financial statements. The Company has launched a liquidity fund. The Bank has been appointed as the Investment Manager and Custodian of the Company. The Company is managed by EIB Investment Management (Cayman) Limited, which is a 100% subsidiary of an associate company of the Bank, EIB Investment Company LLC. The Company is an open-ended, multi-class investment company structured to operate as an open-ended unit trust or mutual fund and is an exempted company with limited liability formed under the laws of the Cayman Islands. The investment objective of the Company is to generate income and preserve capital through investment in short-term, high quality debt instruments and related securities.

2.4 Changes in accounting policies

New and amended standards and interpretations

The accounting policies are consistent with those used in the previous year except the Group applied, for the first time, certain standards and amendments which resulted in additional disclosures in the consolidated financial statements. The nature and the impact of each applicable new standard and amendment is described below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 BASIS OF PREPARATION (continued)

2.4 Changes in accounting policies (continued)

New and amended standards and interpretations (continued)

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

2.5 Standards issued but not yet effective

The relevant standards and interpretations that are issued, but not yet effective, up to the reporting date of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not mandatory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Group is in the process of analysing the detailed impact of IFRS9.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 BASIS OF PREPARATION (continued)

2.5 Standards issued but not yet effective (continued)

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

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group as the Bank does not issue separate financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 BASIS OF PREPARATION (continued)

2.5 Standards issued but not yet effective (continued)

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Annual Improvements 2012-2014 Cycle

These relevant improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Group.

2.6 Significant management judgments and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

Impairment losses on loans and advances

The Group reviews its problem loans and advances on a regular basis to assess whether a provision for impairment should be recorded in the income statement. In particular, judgment 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 BASIS OF PREPARATION (continued)

2.6 Significant management judgments and estimates (continued)

Classification of investments:

Management decides upon acquisition of an investment whether it should be classified as investments carried at fair value through profit or loss or available-for-sale.

The Group classifies investments as 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.

The above classification requires management's judgement.

Impairment of investments

The Group treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. 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.

Liquidity

The Group manages its liquidity by maintaining an adequate ratio of net liquid assets to liabilities which is set out in a table in the liquidity risk disclosure in note 23. The table requires judgment with regards to whether assets can be considered liquid.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transaction;
- current fair value of another investment that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of cash flows and discount factors for unquoted equity investments requires significant estimations. The Group calibrates the valuation techniques periodically and tests them for validity using either process from observable current market transactions in the same investment or from other available observable market data.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition

For all financial instruments measured at amortised cost and other interest bearing financial instruments including 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.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents for the purpose of consolidated statement of cash flows comprise balances with maturities of three months or less from the date of acquisition including cash and balances with UAE Central Bank, due from banks and due to banks.

Due from banks

Due from banks are stated at amortised cost using the effective interest method less allowance for impairment, if any.

Recognition of financial assets and liabilities

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to contractual provisions of the instrument. From this date, any gains or losses arising from changes in fair value of the assets and liabilities designated at fair value through profit and loss or available-for-sale assets are recognised. Loans and advances are recognised on the day they are transferred to or acquired by the Group.

Loans and advances

Loans and advances are stated at amortised cost net of interest suspended, provisions for impairment and any amounts written off. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income in the consolidated income statement and the losses arising on impairment of such loans and advances are also recognised in the consolidated income statement.

Investments

Investments are classified as follows:

- Investments at fair value through profit or loss;
- Available-for-sale

Investments at Fair Value through Profit or Loss ("FVTPL")

This category has two sub-categories:

- Investment securities held for trading, and;
- Those designated at fair value through profit or loss at inception.

An investment security is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is an evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Investment securities are designated as at FVTPL in the following circumstances:

- Doing so eliminates or significantly reduces measurement or recognition inconsistencies that would arise from measuring assets or liabilities or recognising the gains and losses on them on different basis; or
- They are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Available-for-sale

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held to maturity or loans and advances. Available-for-sale investments include certain debt and equity investments. These investments may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Initial recognition

All investment securities are initially recognised at fair value plus, except for investments at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of such investment.

Subsequent measurement

After initial recognition, investments at fair value through profit or loss are remeasured at fair value. Fair value changes in respect of these investments are taken to the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Subsequent measurement (continued)

After initial recognition, available-for-sale investments are remeasured at fair value except unquoted equity investments whose fair value cannot be reliably determined in which case they are measured at cost less accumulated impairment. Fair value changes are reported as a separate component of equity until the security is derecognised or the security is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity is included in the consolidated income statement for the year.

Investments in associates

Associates are the entities over which the Group has significant influence but not control, generally accompanying a shareholding of over 20% of the voting rights, not being a subsidiary or a joint venture.

An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Under the equity method, the investment in associate is measured in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate.

The profit or loss reflects the share of the results of operations of the associates. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associates.

The Group's share of the profit or loss of its associates is shown on the face of the consolidated income statement.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each consolidated statement of financial position date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

The financial statements of the associates are prepared as of the same reporting date as for the Group. Where necessary, adjustments are made in the Group's consolidated financial statements to align the accounting policies of the Associates in line with those of the Group.

Upon loss of significant influence over the associate, the Group measures any retained investment at its fair value.

Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in consolidated income statement.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the Group's rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial liabilities

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

Impairment and uncollectibility of financial assets

The Group assesses at each reporting 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 and loans and advances to customers), 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 income statement. 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 and similar 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 the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original 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.

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)

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

(ii) Available-for-sale financial investments

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

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment 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 income statement. Future interest income is based 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 on investments in debt instruments" included in 'Net income from investments'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires considerable judgement. Where 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 income statement – is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in the fair value after impairment are recognised directly in other comprehensive income.

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of principal market, in the most advantageous market for the asset and liabilities.

If an asset or a liability measured at fair value has a 'Bid' price and an 'Ask' price, then the Group measures assets and long positions at a 'Bid' price and liabilities and short positions at an 'Ask' price.

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.

Fair value is applicable to both financial and non-financial instruments.

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices at the close of business on the statement of financial position date. Bid prices are used for assets and offer prices are used for liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

For unquoted equity investments, fair value is determined by reference to the current market value of a similar investment, recent arm's length market transactions, or is based on expected discounted cash flows or derived using other accepted valuation models.

The fair value of forward foreign exchange contracts is calculated by reference to forward exchange rates for contracts with similar maturities.

Property and equipment

Property and equipment are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and any accumulated impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

Furniture and computer equipment	over 4 years
Motor vehicles	over 4 years
Computer software	over 4 years
Artwork	is not depreciated

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 and any significant part initially recognised 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 included in the consolidated statement of income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Deposits

All money market and customer deposits are carried at cost less amounts repaid.

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 other 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 the 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 able to be reliably measured.

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 financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantees (continued)

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement in 'Other 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 income statement on a straight-line basis over the lease term.

Derivatives

The Group enters into derivative instruments including forwards, futures, forward rate agreements, swaps, credit default swap and options in the foreign exchange, interest rate and capital markets. These are stated at fair value. 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 consolidated 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 income statement.

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).

Impairment of non-financial assets

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

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

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

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 received from or 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 recognised in the consolidated statement of financial position.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported on the consolidated 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 on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)**Foreign currencies**

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

Segment reporting

The Group's reporting is based on the following operating segments: Investment and Banking Services.

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 reporting date are disclosed as an event after the reporting date.

4 INTEREST INCOME

	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Loans and advances	33,105	33,967
Bank placements	2,690	174
	<u>35,795</u>	<u>34,141</u>

5 NET INCOME FROM INVESTMENTS

	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Interest income on investments in debt instruments	33,008	42,248
Net realised gain on disposal of available-for-sale investments	33,492	33,172
Loss from investment securities designated as fair value through profit or loss	(444)	-
Dividend income	14,658	19,422
Custody and transaction fee paid to other financial institutions	(1,673)	(1,057)
	<u>79,041</u>	<u>93,785</u>

6 OTHER INCOME

	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Custody and management fees on fiduciary assets	20,229	13,153
Commission and other income	6,013	4,901
Fee from financial advisory services	1,969	280
	<u>28,211</u>	<u>18,334</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

7 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Staff costs	49,341	39,415
Depreciation (note 14)	2,038	1,491
Rental costs – operating leases	3,081	2,442
Consultancy charges	3,506	1,046
Communication and subscriptions	2,858	2,319
Others	6,866	5,172
	<u>67,690</u>	<u>51,885</u>

8 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year of AED 28,134 thousand (2014: AED 46,234 thousand) by the number of shares outstanding during the year of 700,000 shares of AED 100.

The earnings per share of AED 66.05 as reported for the year ended 31 December 2014 (previously reported as AED 71.13) are adjusted for the effect of the shares issued in 2015 as a result of the stock dividend.

The figure for basic and diluted earnings per share is the same as the Group has not issued any instruments which would have an impact on earnings per share when exercised.

9 CASH AND BALANCES WITH UAE CENTRAL BANK

	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Cash in hand	281	171
Balances with UAE Central Bank:		
Current account	90,809	55,683
Reserve requirements	247,731	180,933
	<u>338,821</u>	<u>236,787</u>

The reserve requirements are kept with the UAE Central Bank in AED and USD and cannot be withdrawn without its approval. The level of reserve required changes every month in accordance with the UAE Central Bank directives and is based on the balance of outstanding customer deposits.

10 DUE FROM BANKS

	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Domestic	743,455	105,509
Regional	60,928	34,586
International	627,066	902,703
	<u>1,431,449</u>	<u>1,042,798</u>

The average yield on bank placements was 1.19% per annum (2014: 1.03% per annum).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

11 LOANS AND ADVANCES, NET

	2015 AED'000	2014 AED'000
Commercial and business:		
Overdrafts/ loans (secured)	312,499	585,656
Gross loans and advances	312,499	585,656
Less: collective impairment provision	(4,705)	(12,405)
Loans and advances, net	307,794	573,251

At 31 December 2015, there were no loans individually determined to be impaired and, accordingly, no specific provisions were considered necessary in respect of any of the loans and advances provided by the Group (2014: Nil).

Based on the assessment of health of the overall loans and advances portfolio, and also in compliance with the directive of the Central Bank of UAE, the Group has determined a collective impairment provision of AED 4,705 thousand (2014: AED 12,405 thousand) against risk of default incurred but not yet identified. The Group has reversed impairment provision amounting to AED 7,700 thousand during the year as it is no longer required (2014: impairment loss of AED 7,940 thousand).

12 INVESTMENTS

	2015 AED'000	2014 AED'000
Designated at fair value through profit or loss		
Debt		
Quoted	34,029	-
Unquoted	60,547	-
	94,576	-
Equity		
Unquoted	4,173	-
Total investments designated at fair value through profit or loss	98,749	-
Available-for-sale investments		
Debt		
Quoted	662,378	774,300
Unquoted	233,873	91,707
	896,251	866,007
Equity		
Quoted	355,342	664,491
Unquoted	116,366	97,654
	471,708	762,145
Total available-for-sale investments	1,367,959	1,628,152
Investment in bullion	501	541
Total investments	1,467,209	1,628,693

Investment in bullion represents an investment in physical gold which is being carried at impaired cost. The Group has assessed this for impairment and has recorded a provision amounting to AED 40 thousand (2014: AED 40 thousand) for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

12 INVESTMENTS (continued)

	2015 AED'000	2014 AED'000
Debt investments:		
Domestic	657,594	573,504
Regional	25,367	16,387
International	307,866	276,116
	<u>990,827</u>	<u>866,007</u>
Equity investments:		
Domestic	94,585	125,268
Regional	13,826	37,917
International	367,470	598,960
	<u>475,881</u>	<u>762,145</u>
Investment in bullion	<u>501</u>	<u>541</u>
	<u>1,467,209</u>	<u>1,628,693</u>

Part of the proprietary investment portfolio of the Group having a carrying value of Nil (2014: AED 116 million) is pledged as collateral with banks against credit facilities and repurchase agreements totalling to Nil (2014: AED 85 million).

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

As at 31 December 2015, the Group held the following investments measured as follows:

	31 December 2015 AED'000	<u>Investments carried at fair value</u>			<i>Investments carried at cost</i> AED'000
		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	
Debt investments:					
Domestic	657,594	372,569	-	-	285,025
Regional	25,367	25,367	-	-	-
International	307,866	298,471	9,395	-	-
Equity investments:					
Domestic	94,585	76,620	-	17,965	-
Regional	13,826	13,826	-	-	-
International	367,470	253,991	84,137	29,342	-
Investment in bullion	<u>501</u>	<u>501</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,467,209</u>	<u>1,041,345</u>	<u>93,532</u>	<u>47,307</u>	<u>285,025</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

12 INVESTMENTS (continued)

	31 December 2014 AED'000	Investments carried at fair value			Investments carried at cost AED'000
		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	
Debt investments:					
Domestic	573,504	493,930	-	-	79,574
Regional	16,387	16,387	-	-	-
International	276,116	263,983	12,101	32	-
Equity investments:					
Domestic	125,268	107,988	-	17,280	-
Regional	37,917	37,917	-	-	-
International	598,960	434,118	164,256	586	-
Investment in bullion	541	541	-	-	-
	<u>1,628,693</u>	<u>1,354,864</u>	<u>176,357</u>	<u>17,898</u>	<u>79,574</u>

During the current year, investments amounting to Nil (2014: 12,101 thousand) were transferred from Level 1 to Level 2 as quoted prices for such securities were no longer regularly available.

Investments amounting to AED 8,234 thousand (2014: AED 62,125 thousand) were transferred from Level 2 to Level 1. The transfers from Level 2 to Level 1 were made as the market in respect of these securities was considered to be active again during the year. Investments under Level 2 fair value hierarchy are valued using latest available asset value.

The following table shows a reconciliation of the opening and closing amounts of Level 3 investments recorded at fair value:

	2015 AED'000	2014 AED'000
At 1 January	17,898	7,104
Transfer from Level 1	-	7,959
Transfer from Level 2	29,494	12,165
Transfer from investments carried at cost	-	693
Total losses		
- in income statement	(33)	(4,556)
- in other comprehensive income	79	(5,649)
Disposals	(131)	-
Purchases	-	182
At 31 December	<u>47,307</u>	<u>17,898</u>

The Group has assessed the sensitivity of the fair value measurement of investments under Level 3 due to changes in inputs used. Based on the assessment, no major changes in the fair value of investments under Level 3 are noted as at 31 December 2015. Such an assessment is performed on an annual basis by observing the changes in unobservable inputs which might result in higher or lower fair value measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

13 INVESTMENT IN AN ASSOCIATE

During 2012, the Group made an investment in a newly incorporated entity "EIB Investment Co. L.L.C" (the "Associate"). The Group holds a 24% interest in the profit and losses of the Associate. The principal activities of the Associate is to invest in Commercial, Industrial and Agricultural enterprises and management. The investment represents the Group's share in the capital of the Associate.

The following table illustrates summarised financial information of the Group's investment in the Associate:

	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Share of the associate statement of financial position:		
Current assets	<u>72</u>	<u>72</u>
Equity	<u><u>72</u></u>	<u><u>72</u></u>
	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Share of the associate's revenue and profit:		
Revenue	<u>-</u>	<u>-</u>
Profit for the year	<u>-</u>	<u>-</u>
Carrying amount of the investment	<u><u>72</u></u>	<u><u>72</u></u>

14 PROPERTY AND EQUIPMENT

	<i>Furniture, computer equipment and artwork AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Computer software AED'000</i>	<i>Total AED'000</i>
Cost:				
At 1 January 2015	8,437	83	2,076	10,596
Additions	<u>1,296</u>	<u>-</u>	<u>981</u>	<u>2,277</u>
At 31 December 2015	<u><u>9,733</u></u>	<u><u>83</u></u>	<u><u>3,057</u></u>	<u><u>12,873</u></u>
Accumulated depreciation:				
At 1 January 2015	5,147	40	575	5,762
Charge for the year	<u>1,280</u>	<u>21</u>	<u>737</u>	<u>2,038</u>
At 31 December 2015	<u><u>6,427</u></u>	<u><u>61</u></u>	<u><u>1,312</u></u>	<u><u>7,800</u></u>
Net carrying values:				
At 31 December 2015	<u><u>3,306</u></u>	<u><u>22</u></u>	<u><u>1,745</u></u>	<u><u>5,073</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

14 PROPERTY AND EQUIPMENT (continued)

	<i>Furniture, computer equipment and artwork AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Computer software AED'000</i>	<i>Total AED'000</i>
Cost:				
At 1 January 2014	8,132	83	1,130	9,345
Additions	506	-	946	1,452
Disposals	(201)	-	-	(201)
At 31 December 2014	<u>8,437</u>	<u>83</u>	<u>2,076</u>	<u>10,596</u>
Accumulated depreciation:				
At 1 January 2014	4,298	19	154	4,471
Charge for the year	1,049	21	421	1,491
Relating to disposals	(200)	-	-	(200)
At 31 December 2014	<u>5,147</u>	<u>40</u>	<u>575</u>	<u>5,762</u>
Net carrying values:				
At 31 December 2014	<u>3,290</u>	<u>43</u>	<u>1,501</u>	<u>4,834</u>

15 OTHER ASSETS

	<i>2015 AED'000</i>	<i>2014 AED'000</i>
Interest receivable	8,019	9,899
Other receivables and prepayments	8,360	6,309
Derivative financial assets (note 20)	1,626	2,135
	<u>18,005</u>	<u>18,343</u>

16 DUE TO BANKS

	<i>2015 AED'000</i>	<i>2014 AED'000</i>
Term placements	30,000	96,931
Overdraft facility	4,402	5,656
Repurchase agreements	-	28,296
	<u>34,402</u>	<u>130,883</u>

The interest rates paid on the above averaged 1.10% per annum (2014: 1.03% per annum).

The Group has borrowed an amount of Nil (2014: AED 28 million) under repurchase agreements, whereby the Group's investments in certain bonds with a carrying value of Nil (2014: AED 40 million) as at 31 December 2015 are pledged as collateral under these agreements.

The Group has also borrowed an amount of Nil (2014: AED 57 million) under term placements, whereby the Group's investments in certain bonds with a carrying value of Nil (2014: AED 76 million) as at 31 December 2015 are pledged as collateral under these placements.

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	12,224	29,394
Employees' end of service benefits	4,222	2,824
Derivative financial liability (note 20)	2,901	1,827
Others	15,956	15,048
	<u>35,303</u>	<u>49,093</u>

In accordance with the UAE Labour Law, the Group provides for end of service benefits for its expatriate employees. Movements in the liability recognised in the 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>
At 1 January	2,824	1,962
Expense recognised in the consolidated income statement	1,412	1,017
Amount paid	(14)	(155)
	<u>4,222</u>	<u>2,824</u>
At 31 December		

18 SHARE CAPITAL AND RESERVES**a) Share capital**

The authorised share capital of the Bank comprises 800,000 ordinary shares of AED 100 each (2014: 800,000 ordinary shares of AED 100 each). The issued and fully paid share capital of the Bank comprises 700,000 ordinary shares of AED 100 each (2014: 650,000 ordinary shares of AED 100 each). The increase in share capital represents issue of new shares following scrip dividend distributed by the Bank during the current year.

b) Legal reserve

In accordance with the UAE Federal Law No. (2) of 2015 and the Bank's Articles of Association, 10% of the profit for the year has been transferred to legal reserve till the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

c) Special reserve

As required under Article 82 of Union Law No. 10 of 1980 and the Bank's Articles of Association, 10% of the profit for the year has been transferred to a special reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

19 DIVIDENDS PAID AND PROPOSED

On 18 March 2015, the shareholders have approved in the annual general meeting a scrip dividend at 7.692% of the paid up capital amounting to AED 5,000 thousand (2014: a scrip dividend of 8.333% amounting to AED 5,000 thousand). The scrip dividend was issued on 29 March 2015.

The Board of Directors in their meeting dated 15 February 2016 have proposed a scrip dividend at 7.143% of the paid up capital amounting to AED 5,000 thousand. This dividend is subject to the approval of the shareholders at the annual general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

20 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group enters into 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. The purpose of derivative financial instruments in the Group's business is to mitigate the risks arising from default, currency and interest fluctuations and other market variables. The Group uses forward foreign exchange contracts to mitigate the currency risk on certain investments.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with the notional amounts. The notional amount, recorded gross 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.

	<i>Positive fair value 2015 AED'000</i>	<i>Negative fair value 2015 AED'000</i>	<i>Notional amount 2015 AED'000</i>	<i>Positive fair value 2014 AED'000</i>	<i>Negative fair value 2014 AED'000</i>	<i>Notional amount 2014 AED'000</i>
Derivative:						
Forward foreign exchange contracts	1,626	2,897	350,673	2,135	1,827	142,894
Foreign exchange option contracts	-	4	1,816	-	-	-
	<u>1,626</u>	<u>2,901</u>	<u>352,489</u>	<u>2,135</u>	<u>1,827</u>	<u>142,894</u>

Derivative financial instruments include forward foreign exchange contracts and option contracts. These instruments are entered into for a period of upto five years. The Group has forty two foreign exchange contracts (2014: eleven) outstanding as at 31 December 2015.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have an impact on the profit or loss of the Group. The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

Derivative product type*Forwards*

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in over-the-counter market.

Options

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

Fair value

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. Disclosures concerning the fair value of derivatives are provided in Note 25.

Foreign exchange forward contracts and foreign exchange option contracts are valued using valuation techniques, which employs the use of market observable inputs. 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, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

20 DERIVATIVE FINANCIAL INSTRUMENTS (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. With gross-settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honours its obligation, but the counterparty fails to deliver the counter value.

The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

21 COMMITMENTS AND CONTINGENT LIABILITIES***Credit-related commitments and contingent liabilities***

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

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

The Group has the following credit related commitments:

	2015 AED'000	2014 AED'000
Guarantees	44,086	79,863
Unutilised committed credit facilities*	53,049	20,954
	97,135	100,817

The Group has no commitments on account of investments made in securities and limited partnership funds.

* Unutilised committed credit facilities represent a contractual commitment to permit draw downs on a facility within a defined period subject to conditions precedent and termination clauses. As commitments may expire without being drawn down and since conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent exact future cash requirements.

Operating lease commitments:

	2015 AED'000	2014 AED'000
Future minimum lease payments		
Within one year	1,768	1,651
After one year but not more than five years	963	3,214
Total operating lease expenditure contracted for at the end of the reporting period	2,731	4,865

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

22 RELATED PARTY TRANSACTIONS

The Group enters into transactions in the ordinary course of business with related parties, defined as major shareholders, directors, key management personnel and their related companies. All loans and advances to related parties are performing advances and are free of any provision for possible loan losses. Pricing policies and terms of related parties' transactions are approved by the Group's management.

The significant balances outstanding at 31 December in respect of related parties included in the consolidated financial statements are as follows:

	2015 AED'000	2014 AED'000
<i>Directors, their related parties and key management personnel:</i>		
Loans and advances	5,593	790
Investments	267,827	61,209
Customers' deposits	730,186	1,024,991
Commitments and contingencies	36,162	74,423
Other liabilities	5,872	24,463

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2015 AED'000	2014 AED'000
<i>Directors, their related parties and key management personnel:</i>		
Interest income	1,284	694
Interest expense	(20,266)	(25,302)
Other income	4,070	3,118
General and administrative expenses	(4,419)	(3,438)

Outstanding balances at the year-end arise in the normal course of business. For the year ended 31 December 2015, the Group has not recorded any impairment of amounts owed by related parties (2014: Nil).

Compensation of key management personnel:

	2015 AED'000	2014 AED'000
Salaries and other benefits	9,903	7,575

23 RISK MANAGEMENT**Introduction**

Risk is inherent in 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 his or her responsibilities.

The Board of Directors hold the ultimate responsibility vis a vis the risk exposures. The Group has adopted a risk governance suggesting a "three line of defence approach" to risk management, which involves top management and business lines, strong risk management function, and capable independent internal audit.

23 RISK MANAGEMENT (continued)

Introduction (continued)

The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

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 is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The Board of Directors has the responsibility to monitor the overall risk process within the Group. They also have the overall responsibility for the development of the related strategy and implementing principles, framework, process and limits. The Board is responsible for the fraud and other risk related matters and manages and monitors relevant risk decisions.

Board Risk Committee

Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancement of the Group's risk management framework to best practice standards, monitoring of aggregate risk exposures (credit, market, liquidity, operational, legal, etc.) and compliance with the regulatory requirements.

Board Audit Committee

The primary role of the Board Audit Committee (BAC) is to have an oversight and review of financial audit and internal control issues as well as to oversee the independence and performance of Group's external and internal auditors.

Bank Treasury

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

Internal Audit

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

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept. 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 is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the BRC and management committees, which includes aggregate credit exposure, liquidity ratios and risk profile changes.

Periodic briefing is given to the relevant members of the Group on the utilisation of market 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 also constantly monitor their portfolio and diversify it in order to mitigate risk in relation to concentration of exposure towards a particular business or geographical segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)

Risk management structure (continued)

Excessive risk concentration

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

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

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in 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 an internal 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.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

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

		Gross maximum exposure 2015 AED'000	Gross maximum exposure 2014 AED'000
	<i>Notes</i>		
Balances with UAE Central Bank			
(excluding cash on hand)	9	338,540	236,616
Due from banks	10	1,431,449	1,042,798
Loans and advances	11	312,499	585,656
Investments in debt instruments	12	990,827	866,007
Other assets		16,159	16,756
		3,089,474	2,747,833
Guarantees	21	44,086	79,863
Total credit risk exposure		3,133,560	2,827,696

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.

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 shown below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)

Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2015 was AED 737,663 thousand (2014: AED 224,414 thousand) before taking account of collateral or other credit enhancements. This analysis does not include investment in debt instruments.

The Group's financial instruments (excluding cash in hand and investments in equity securities) including guarantees, 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	1,835,814	44,086	1,162,538	79,863
North America	95,005	-	115,044	-
Europe	644,521	-	903,341	-
Asia Pacific	171,272	-	155,406	-
GCC & other ME	342,862	-	411,504	-
	3,089,474	44,086	2,747,833	79,863

An industry sector analysis of the Group's financial assets (excluding cash in hand and investments in equity securities) including guarantees, before taking into account collateral held or other credit enhancements, is as follows:

	2015 <i>AED'000</i>	2014 <i>AED'000</i>
Commercial and business	1,107,832	1,259,898
Banks and financial institutions	1,935,159	1,361,881
Government entities	88,307	203,483
Others	2,262	2,434
	3,133,560	2,827,696

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and product parameters. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are generally cash and investment securities.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of financial assets

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

	<i>Neither past due nor impaired</i>			
	<i>Prime and high grade 2015 AED'000</i>	<i>Standard grade 2015 AED'000</i>	<i>Sub- standard grade 2015 AED'000</i>	<i>Total 2015 AED'000</i>
Balances with UAE Central Bank	338,540	-	-	338,540
Due from banks	1,431,449	-	-	1,431,449
Loans and advances	-	312,499	-	312,499
Investments in debt instruments	96,412	748,063	146,352	990,827
	1,866,401	1,060,562	146,352	3,073,315

	<i>Neither past due nor impaired</i>			
	<i>Prime and high grade 2014 AED'000</i>	<i>Standard grade 2014 AED'000</i>	<i>Sub- standard grade 2014 AED'000</i>	<i>Total 2014 AED'000</i>
Balances with UAE Central Bank	236,616	-	-	236,616
Due from banks	1,042,798	-	-	1,042,798
Loans and advances	-	585,656	-	585,656
Investments in debt instruments	158,503	459,899	247,605	866,007
	1,437,917	1,045,555	247,605	2,731,077

As at the year end, the Group has an amount of Nil (2014: Nil) in loans and advances which were past due or individually impaired.

Credit risk exposure of the Group's financial assets (excluding cash in hand and investments in equity instruments and bullion) including guarantees for each internal risk rating.

	<i>Moody's equivalent grades</i>	<i>Total 2015 AED'000</i>	<i>Total 2014 AED'000</i>
Prime and high grade	Aaa-Aa3	1,866,401	1,437,917
Standard grade	Baa-Baa3	1,104,648	1,125,418
Sub-standard grade	Ba-B3	146,352	247,605
		3,117,401	2,810,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

It is the Group's policy to maintain accurate and consistent risk ratings across the credit and investment portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class as a number of them are based on the Group's internal rating.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind and by maintaining a healthy balance of cash and cash equivalents.

The Group maintains a portfolio of highly marketable and diverse assets that can 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 demand deposits and 1% of saving deposits. 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.

Maturities of assets and liabilities at the date of statement of financial position are set out in the table below based on the remaining period 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 is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2015	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Sub total less than 12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Sub total over 12 months AED'000	Undated AED'000	Total AED'000
ASSETS									
Cash and balances with UAE Central Bank	338,821	-	-	338,821	-	-	-	-	338,821
Due from banks	1,431,449	-	-	1,431,449	-	-	-	-	1,431,449
Loans and advances, net	158,174	147,117	593	305,884	1,910	-	1,910	-	307,794
Investments	369,094	5,358	55,757	430,209	334,871	225,747	560,618	476,382	1,467,209
Investment in an associate	-	-	-	-	-	-	-	72	72
Property and equipment	-	-	-	-	-	-	-	5,073	5,073
Other assets	15,798	589	544	16,931	-	-	-	1,074	18,005
Total assets	2,313,336	153,064	56,894	2,523,294	336,781	225,747	562,528	482,601	3,568,423
LIABILITIES AND EQUITY									
Due to banks	34,402	-	-	34,402	-	-	-	-	34,402
Customer deposits	2,298,576	103,877	305,956	2,708,409	461,976	-	461,976	-	3,170,385
Other liabilities	21,383	7,735	-	29,118	1,963	-	1,963	4,222	35,303
Equity	-	-	-	-	-	-	-	328,333	328,333
Total liabilities and equity	2,354,361	111,612	305,956	2,771,929	463,939	-	463,939	332,555	3,568,423
Net liquidity gap	(41,025)	41,452	(249,062)	(248,635)	(127,158)	225,747	98,589	150,046	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2014

	Less than 3 months AED '000	From 3 months to 6 months AED '000	From 6 months to 12 months AED '000	Sub total less than 12 months AED '000	1-5 years AED '000	Over 5 years AED '000	Sub total over 12 months AED '000	Undated AED '000	Total AED '000
ASSETS									
Cash and balances with UAE Central Bank	236,787	-	-	236,787	-	-	-	-	236,787
Due from banks	1,042,798	-	-	1,042,798	-	-	-	-	1,042,798
Loans and advances, net	266,212	871	305,882	572,965	286	-	286	-	573,251
Investments	104,258	102,351	37,224	243,833	267,881	354,293	622,174	762,686	1,628,693
Investment in an associate	-	-	-	-	-	-	-	72	72
Property and equipment	-	-	-	-	-	-	-	4,834	4,834
Other assets	14,903	380	2,117	17,400	-	-	-	943	18,343
Total assets	1,664,958	103,602	345,223	2,113,783	268,167	354,293	622,460	768,535	3,504,778
LIABILITIES AND EQUITY									
Due to banks	73,952	-	56,931	130,883	-	-	-	-	130,883
Customer deposits	2,026,969	263,991	584,246	2,875,206	109,857	-	109,857	-	2,985,063
Other liabilities	16,230	16,582	11,536	44,348	1,921	-	1,921	2,824	49,093
Equity	-	-	-	-	-	-	-	339,739	339,739
Total liabilities and equity	2,117,151	280,573	652,713	3,050,437	111,778	-	111,778	342,563	3,504,778
Net liquidity gap	(452,193)	(176,971)	(307,490)	(936,654)	156,389	354,293	510,682	425,972	

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 the year-end based on remaining 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 accordingly the table below does not reflect the expected cash flows based on Group's deposit retention history.

	<i>On demand AED'000</i>	<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>Total AED'000</i>
2015					
Due to banks	4,402	30,013	-	-	34,415
Customer deposits	1,858,904	441,327	414,644	490,205	3,205,080
Other liabilities	-	21,383	7,735	6,185	35,303
Total undiscounted financial liabilities	1,863,306	492,723	422,379	496,390	3,274,798
	<i>On demand AED'000</i>	<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>Total AED'000</i>
2014					
Due to banks	5,656	68,367	57,442	-	131,465
Customer deposits	1,310,543	717,559	861,197	129,494	3,018,793
Other liabilities	-	16,230	28,118	4,745	49,093
Total undiscounted financial liabilities	1,316,199	802,156	946,757	134,239	3,199,351

Derivatives financial instruments in the above table are indicated under other liabilities at the gross undiscounted cash flows. However, these amounts may be settled gross or net.

The table below shows the contractual expiry by maturity of the Group's contingent liabilities:

	<i>On demand AED'000</i>	<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>Total AED'000</i>
2015						
Contingent liabilities	53,049	15,002	25,392	1,257	2,435	97,135
2014						
Contingent liabilities	20,954	25,312	52,219	-	2,332	100,817

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

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

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

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 levels of interest rate risk by setting interest rate sensitivity limits.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate financial assets and financial liabilities held at the year end. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at year-end for the effect of assumed changes in interest rates. The total sensitivity is based on the assumption that there are parallel shifts in the yield curve.

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 and equity.

<i>Increase in basis points</i>	<i>Impact on net profit 2015 AED'000</i>	<i>Impact on equity 2015 AED'000</i>	<i>Impact on net profit 2014 AED'000</i>	<i>Impact on equity 2014 AED'000</i>
100	(12,446)	(9,449)	(12,742)	(16,088)

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 strategies used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Group had significant exposure at year-end on its non-trading monetary assets and liabilities and their 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 equity (due to the fair value of currency sensitive non trading monetary assets which mainly relates to available-for-sale investments). A negative amount in the table reflects a potential net reduction in equity, while a positive amount reflects a net potential increase.

	<i>Change in currency rate in % 2015</i>	<i>Effect on equity 2015 AED'000</i>	<i>Change in currency rate in % 2014</i>	<i>Effect on equity 2014 AED'000</i>
Currency				
Euro	+10	535	+10	1,686
Pound Sterling	+10	32	+10	(227)
Chinese Remnibi	+10	4	+10	307
Swiss Francs	+10	(89)	+10	(367)

Since the UAE Dirham is on a fixed parity to the US Dollar, management believes that presently the Group is not exposed to any significant foreign currency risk in respect of US Dollar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23 RISK MANAGEMENT (continued)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's equity investment portfolio.

The effect on equity due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	<i>Change in equity price 2015 %</i>	<i>Effect on equity 2015 AED'000</i>	<i>Change in equity price 2014 %</i>	<i>Effect on equity 2014 AED'000</i>
New York Stock Exchange	+10	5,438	+10	17,407
Abu Dhabi Securities Market	+10	1,783	+10	3,968
Dubai Financial Market	+10	6,969	+10	7,935
Others	+10	33,398	+10	46,905

Operational risk

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

24 SEGMENTAL ANALYSIS

For operating purposes, the Group is organised into two major business segments: (a) Investments, which is principally involved in managing the Group's own investment portfolio and provides treasury services; and (b) Banking Services, which principally manages client's investment portfolio, provides credit facilities, accepts deposit from corporate and individual customers and provides advisory services on corporate finance and capital market transactions. These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds and an equitable allocation of expenses.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

	<i>Investments</i>		<i>Banking Services</i>		<i>Total</i>	
	<i>2015 AED'000</i>	<i>2014 AED'000</i>	<i>2015 AED'000</i>	<i>2014 AED'000</i>	<i>2015 AED'000</i>	<i>2014 AED'000</i>
Revenue *	72,109	106,808	50,053	41,207	122,162	148,015
Inter-segment adjustment	(3,596)	(23,193)	3,596	23,193	-	-
	68,513	83,615	53,649	64,400	122,162	148,015
Profit for the year	24,416	40,905	3,718	5,329	28,134	46,234

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

24 SEGMENTAL ANALYSIS (continued)

	<i>Investments</i>		<i>Banking Services</i>		<i>Total</i>	
	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Segment assets	3,271,185	2,981,956	297,238	522,822	3,568,423	3,504,778
Segment liabilities and equity	821,160	1,091,548	2,747,263	2,413,230	3,568,423	3,504,778

* Revenue comprises interest income, net income from investments, other income and exchange (loss) gain less impairment loss on investments.

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book-value under the historical cost method and fair value estimates.

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;

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

The following table shows an analysis of derivatives 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				
Foreign exchange contracts (note 20)	-	1,626	-	1,626
Financial liabilities				
Foreign exchange contracts (note 20)	-	2,901	-	2,901

31 December 2014

	<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				
Foreign exchange contracts (note 20)	-	2,135	-	2,135
Financial liabilities				
Foreign exchange contracts (note 20)	-	1,827	-	1,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

Fair value hierarchy of Investments is disclosed under note 12.

The table below sets out the Group's classification of each class of financial assets and liabilities, and their carrying values.

31 December 2015	<i>At fair value through profit or loss AED'000</i>	<i>Available for sale AED'000</i>	<i>Loans and receivables AED'000</i>	<i>Amortised cost AED'000</i>	<i>Total AED'000</i>
Financial assets					
Cash and balances with UAE Central Bank	-	-	-	338,821	338,821
Due from banks	-	-	-	1,431,449	1,431,449
Loans and advances	-	-	307,794	-	307,794
Investments excluding bullion	98,749	1,082,934	-	285,025	1,466,708
Others	1,626	-	-	14,533	16,159
	<u>100,375</u>	<u>1,082,934</u>	<u>307,794</u>	<u>2,069,828</u>	<u>3,560,931</u>
Financial liabilities					
Due to banks	-	-	-	34,402	34,402
Customer deposits	-	-	-	3,170,385	3,170,385
Others	2,901	-	-	28,180	31,081
	<u>2,901</u>	<u>-</u>	<u>-</u>	<u>3,232,967</u>	<u>3,235,868</u>
31 December 2014					
	<i>At fair value through profit or loss AED'000</i>	<i>Available for sale AED'000</i>	<i>Loans and receivables AED'000</i>	<i>Amortised cost AED'000</i>	<i>Total AED'000</i>
Financial assets					
Cash and balances with UAE Central Bank	-	-	-	236,787	236,787
Due from banks	-	-	-	1,042,798	1,042,798
Loans and advances	-	-	573,251	-	573,251
Investments excluding bullion	-	1,548,578	-	79,574	1,628,152
Others	2,135	-	-	14,621	16,756
	<u>2,135</u>	<u>1,548,578</u>	<u>573,251</u>	<u>1,373,780</u>	<u>3,497,744</u>
Financial liabilities					
Due to banks	-	-	-	130,883	130,883
Customer deposits	-	-	-	2,985,063	2,985,063
Others	1,827	-	-	44,442	46,269
	<u>1,827</u>	<u>-</u>	<u>-</u>	<u>3,160,388</u>	<u>3,162,215</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

26 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank'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.

The Central Bank of UAE supervises the Bank, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Bank. The capital is computed at the Bank level using the Basel II framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the Central Bank of UAE, within national discretion.

The Basel II framework is structured around three 'pillars': minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

Minimum Capital Requirements

Per current capital requirements, the Central Bank of UAE requires the Bank to maintain a prescribed minimum ratio of total capital to total risk-weighted assets of 12% (of which Tier I to be 8%).

The tiered components of Bank's regulatory capital comprise of:

- Tier I capital includes share capital, legal reserve, special reserve, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and
- Tier II capital includes undisclosed reserve and fair value reserve.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

The capital adequacy ratio as per Basel II framework is given below:

	2015 AED'000	2014 AED'000
Tier I Capital		
Issued capital	70,000	65,000
Legal reserve	35,000	32,500
Special reserve	31,797	28,984
Retained earnings	178,828	161,007
Total tier I capital	<u>315,625</u>	<u>287,491</u>
Tier II Capital		
Undisclosed reserves/ general provisions	4,705	12,405
Fair value reserve	5,471	20,504
Total tier II capital	<u>10,176</u>	<u>32,909</u>
Total regulatory capital	<u>325,801</u>	<u>320,400</u>
Risk Weighted Exposure		
	2015 AED'000	2014 AED'000
Credit risk	1,853,474	1,946,869
Market risk	13,824	45,782
Operational risk	157,628	128,846
Total	<u>2,024,926</u>	<u>2,121,497</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

26 CAPITAL ADEQUACY (continued)

	2015	2014
Capital Ratio		
Total regulatory capital as a percentage of total risk weighted assets	16.09%	15.10%
Total Tier I regulatory capital as a percentage of total risk weighted assets	15.59%	13.55%

Capital management policies, stress testing and capital management

The Bank has a robust capital adequacy assessment, monitoring and reporting process and is pro-actively advancing its internal capital adequacy assessment framework along the lines of Basel II and in anticipation of Basel III.

The forward-looking internal capital adequacy assessment process (ICAAP) is based on the Bank's financial budget projections. Various stress scenarios are considered to assess the strength of the Bank's capital adequacy over a three year period.

The implemented ICAAP is based on Economic Capital and defines adequacy as balance of capital supply, in the form of available financial resources, and capital demand, in the form of cushion against unexpected losses. The Bank's quantification models have been subject to external scrutiny and validation.

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

The Bank manages its capital structure 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 structure, the Bank 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.

27 FIDUCIARY ASSETS

	2015 AED'000	2014 AED'000
Balance as at 31 December	6,043,123	4,214,543

The Group provides custody services for its customers' investments. These investments are held by the Group in a fiduciary capacity and are, accordingly, not included in these consolidated financial statements as assets of the Group.