Commercial Bank of Dubai PSC

Consolidated Financial Statements

31 December 2015

Commercial Bank of Dubai PSC

Consolidated Financial Statements

31 December 2015

Contents | ***Page***

EY
Building a better working world

Ernst & Young
P.O. Box 9267
28th Floor, Al Saqr Business Tower
Sheikh Zayed Road
Dubai, United Arab Emirates

Tel: +971 4 332 4000
Fax: +971 4 332 4004
dubai@ae.ey.com
ey.com/mena

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF DUBAI PSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Commercial Bank of Dubai PSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of 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.

Auditors' Responsibility

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

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

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

Opinion

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

Building a better
working world

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF DUBAI PSC (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 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 8 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2015;

vi) note 31 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 Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2015; and

viii) note 23 reflects the social contributions 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.

Ernst & Young

J Murphy

Signed by:
Joseph Murphy
Partner
Registration No. 492

4 February 2016

Dubai, United Arab Emirates

Commercial Bank of Dubai PSC

Consolidated statement of financial position

As at 31 December 2015

	Note	2015 AED'000	2014 AED'000
ASSETS			
Cash and balances with Central Bank	*5*	**6,668,065**	5,450,145
Due from banks	*6*	**2,591,717**	1,872,327
Loans and advances and Islamic financing, net	*7*	**39,020,821**	31,821,502
Investment securities	*8*	**6,623,029**	5,587,998
Investment in associate	*9*	**82,029**	84,590
Investment properties	*10*	**333,761**	249,991
Property and equipment	*11*	**332,317**	323,852
Other assets	*12*	**2,212,149**	1,488,150
TOTAL ASSETS		**57,863,888**	46,878,555
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	*13*	**1,111,462**	1,097,926
Customers' deposits and Islamic customers' deposits	*14*	**40,474,776**	32,161,339
Notes and medium term borrowings	*15*	**5,492,694**	4,021,998
Other liabilities	*16*	**2,556,152**	1,786,879
TOTAL LIABILITIES		**49,635,084**	39,068,142
EQUITY			
Share capital	*17*	**2,802,734**	2,242,187
Legal reserve	*17*	**1,401,367**	1,380,495
Capital reserve	*17*	**38,638**	38,638
General reserve	*17*	**1,227,718**	1,121,095
Cumulative changes in fair values of AFS investments and cash flow hedge instruments	*17*	**(6,294)**	69,808
Reserve for proposed bonus issue	*17*	**-**	560,547
Proposed cash dividend	*17*	**560,547**	560,547
Proposed directors' remuneration	*17*	**11,000**	10,540
Retained earnings		**2,193,094**	1,826,556
TOTAL EQUITY		**8,228,804**	7,810,413
TOTAL LIABILITIES AND EQUITY		**57,863,888**	46,878,555

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 4th of February 2016.

The attached notes on pages 8 to 78 form part of these consolidated financial statements.

Mr. Saeed Ahmed Ghobash
Chairman

Mr. Peter Baltussen
Chief Executive Officer

The report of the Auditors is set out on pages 1 and 2.

Commercial Bank of Dubai PSC

Consolidated income statement

For the year ended 31 December 2015

	Note	**2015 AED'000**	2014 AED'000
Interest income and income from Islamic financing	*18*	**1,963,031**	1,827,058
Interest expense and distributions to Islamic depositors	*19*	**(323,000)**	(244,093)
Net interest income and net income from Islamic financing		**1,640,031**	1,582,965
Net fees and commission income	*20*	**498,250**	405,389
Net gains from foreign exchange and derivatives		**116,576**	119,450
Net gains from investments at fair value through profit or loss - held for trading	*21*	**1,247**	2,506
Net gains from sale of available-for-sale investments		**49,266**	72,271
Share of profit of associate	*9*	**4,741**	17,567
Dividend income	*22*	**6,067**	6,579
Other income		**36,059**	33,703
Total operating income		**2,352,237**	2,240,430
Impairment allowances on loans and advances and Islamic financing	*7*	**(501,396)**	(347,288)
Recoveries		**86,800**	63,548
Impairment allowances on AFS investment		**(12,628)**	-
Total net income		**1,925,013**	1,956,690
Staff and other expenses	*23*	**(808,145)**	(708,738)
Depreciation and amortisation	*10,11*	**(50,639)**	(45,696)
Total operating expenses		**(858,784)**	(754,434)
Net profit for the year		**1,066,229**	1,202,256
Basic and diluted earnings per share	*25*	**AED 0.38**	AED 0.43

The attached notes on pages 8 to 78 form part of these consolidated financial statements.

Appropriations have been reflected in the consolidated statement of changes in equity.

The report of the Auditors is set out on pages 1 and 2.

Commercial Bank of Dubai PSC

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	2015 AED'000	2014 AED'000
Net profit for the year	**1,066,229**	1,202,256
Other comprehensive income :		
Changes in fair value of effective portion of cash flow hedge	**1,297**	(349)
Changes in available-for-sale investments:		
Realised gains on sale of available-for-sale investments	**(49,266)**	(72,271)
Share of other comprehensive income of associate	**-**	305
Revaluation of available-for-sale investments	**(28,133)**	87,411
Net change in available-for-sale investments	**(77,399)**	15,445
Other comprehensive income for the year	**(76,102)**	15,096
Total comprehensive income for the year	**990,127**	1,217,352

Balances of all items included in other comprehensive income (as above) for the year ended 31 December 2015 and 2014 could be recycled to consolidated income statement in subsequent periods.

The attached notes on pages 8 to 78 form part of these consolidated financial statements.

The report of the Auditors is set out on pages 1 and 2.

Commercial Bank of Dubai PSC

Consolidated statement of changes in equity

For the year ended 31 December 2015

	Share capital	Legal reserve	Capital reserve	General reserve	Cumulative changes in fair values of AFS investments and cash flow hedge instruments	Retained earnings	Proposed distributions	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
At 1 January 2014	2,038,352	1,379,813	38,638	1,100,000	54,712	1,778,533	826,341	7,216,389
Transactions with owners, recorded directly in equity								
Cash dividend paid for 2013 (30%)	-	-	-	-	-	-	(611,506)	(611,506)
Proposed cash dividend for 2014 (25%)	-	-	-	-	-	(560,547)	560,547	-
Bonus shares issued for 2013 (10%)	203,835	-	-	-	-	-	(203,835)	-
Proposed bonus issue for 2014 (25%)	-	-	-	-	-	(560,547)	560,547	-
Share of Directors' remuneration of associate (note 9)	-	-	-	-	-	(822)	-	(822)
Comprehensive income								
Net profit for the year	-	-	-	-	-	1,202,256	-	1,202,256
Other comprehensive income for the year	-	-	-	-	15,096	-	-	15,096
Total comprehensive income	-	-	-	-	15,096	1,202,256	-	1,217,352
Directors' remuneration paid for 2013	-	-	-	-	-	-	(11,000)	(11,000)
Proposed directors remuneration for 2014	-	-	-	-	-	(10,540)	10,540	-
Transfer to legal reserve	-	682	-	-	-	(682)	-	-
Transfer to General reserve	-	-	-	21,095	-	(21,095)	-	-
At 31 December 2014	2,242,187	1,380,495	38,638	1,121,095	69,808	1,826,556	1,131,634	7,810,413
Transactions with owners, recorded directly in equity								
Cash dividend paid for 2014 (25%)	**-**	**-**	**-**	**-**	**-**	**-**	**(560,547)**	**(560,547)**
Proposed cash dividend for 2015 (20%)	**-**	**-**	**-**	**-**	**-**	**(560,547)**	**560,547**	**-**
Bonus shares issued for 2014 (25%)	**560,547**	**-**	**-**	**-**	**-**	**-**	**(560,547)**	**-**
Share of Directors' remuneration of associate (note 9)	**-**	**-**	**-**	**-**	**-**	**(649)**	**-**	**(649)**
Comprehensive income								
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**1,066,229**	**-**	**1,066,229**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**(76,102)**	**-**	**-**	**(76,102)**
Total comprehensive income	**-**	**-**	**-**	**-**	**(76,102)**	**1,066,229**	**-**	**990,127**
Directors' remuneration paid for 2014	**-**	**-**	**-**	**-**	**-**	**-**	**(10,540)**	**(10,540)**
Proposed directors remuneration for 2015	**-**	**-**	**-**	**-**	**-**	**(11,000)**	**11,000**	**-**
Transfer to legal reserve	**-**	**20,872**	**-**	**-**	**-**	**(20,872)**	**-**	**-**
Transfer to General reserve	**-**	**-**	**-**	**106,623**	**-**	**(106,623)**	**-**	**-**
At 31 December 2015	**2,802,734**	**1,401,367**	**38,638**	**1,227,718**	**(6,294)**	**2,193,094**	**571,547**	**8,228,804**

The attached notes on pages 8 to 78 form part of these consolidated financial statements.
The report of the Auditors is set out on pages 1 and 2.

Commercial Bank of Dubai PSC

Consolidated statement of cash flows

For the year ended 31 December 2015

		2015 AED'000	2014 AED'000
OPERATING ACTIVITIES			
Net profit for the year		**1,066,229**	1,202,256
Adjustments for:			
Depreciation and amortisation		**50,639**	45,696
Loss / (gain) on disposal of property and equipment		**3**	(40)
Dividend income		**(6,067)**	(6,579)
Decrease / (increase) in investment in associate		**2,561**	(11,423)
Amortisation of premium on investments		**53,851**	59,986
Net unrealised losses / (gains) on investments at fair value through profit or loss - held for trading.		**1,293**	(61)
Forex translation loss		**4,949**	6,637
Realised gains on sale of investments		**(50,411)**	(73,994)
Net unrealised (income) / loss on derivatives		**(3,491)**	2,667
Impairment of AFS Investment		**12,628**	-
Amortisation of medium term borrowings		**8,038**	7,192
		1,140,222	1,232,337
Increase in statutory reserve with the Central Bank		**(234,841)**	(279,361)
Increase in negotiable Central Bank certificate of deposits with original maturity of more than three months		**(300,000)**	(100,000)
Increase in due from banks with original maturity of more than three months		**(40,786)**	(183,650)
Increase in loans and advances and Islamic financing, net		**(7,199,319)**	(1,696,181)
(Increase) / decrease in other assets		**(16,250)**	62,572
Increase in customers' deposits and Islamic customers' deposits		**8,313,437**	1,218,659
Decrease in other liabilities		**(24,608)**	(19,287)
Increase in due to banks with original maturity of more than three months		**152,015**	50,000
Directors' remuneration paid		**(10,540)**	(11,000)
Share of Directors' remuneration of associate		**(649)**	(822)
Net cash flow from operating activities		**1,778,681**	273,267
INVESTING ACTIVITIES			
Purchase of investments		**(3,326,709)**	(3,857,159)
Purchase of property and equipment		**(50,287)**	(41,129)
Increase in investment properties		**(2,430)**	(102)
Dividend income		**6,067**	6,579
Proceeds from sale of investments		**2,191,968**	2,520,386
Proceeds from sale of equipment		**761**	2,858
Net cash flow used in investing activities		**(1,180,630)**	(1,368,567)
FINANCING ACTIVITIES			
Notes and medium term borrowings		**1,462,658**	**-**
Dividend paid		**(560,547)**	(611,506)
Net cash flow from / (used in) financing activities		**902,111**	(611,506)
Net increase / (decrease) in cash and cash equivalents		**1,500,162**	(1,706,806)
Cash and cash equivalents at 1 January		**3,462,213**	5,169,019
Cash and cash equivalents at 31 December	*Note 26*	**4,962,375**	3,462,213
Supplemental disclosure:			
Interest income and income from Islamic financing received		**1,956,541**	1,856,172
Interest expense and distributions to Islamic depositors paid		**259,402**	272,847

The attached notes on pages 8 to 78 form part of these consolidated financial statements.
The report of the Auditors is set out on pages 1 and 2.

1. LEGAL STATUS AND ACTIVITIES

Commercial Bank of Dubai PSC ("the Bank") was incorporated in Dubai, United Arab Emirates (U.A.E.) in 1969 and is registered as a Public Shareholding Company (PSC) in accordance with Federal Law No. 8 of 1984 (as amended).The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984. The Bank is currently assessing the impact of the new law and expects to be fully compliant on or before the end of grace period on 30 June 2016. The Bank is listed on the Dubai Financial Market. The Bank's principal activity is commercial banking.

The consolidated financial statements of the Group for the year ended 31 December 2015 comprise the results of the Bank, its subsidiaries (together referred to as "the Group") and the Group's interest's in its associate.

Details about subsidiaries and associates

CBD Financial Services LLC, is registered as a limited liability company in accordance with Federal Law No. 8 of 1984 (as amended) in Dubai, United Arab Emirates. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984.The Bank holds a 100% interest. Its principal activity is broking for local shares and bonds.

Attijari Properties LLC, is registered as a limited liability company in accordance with Federal Law No. 8 of 1984 (as amended) in Dubai, United Arab Emirates. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984.The Bank holds a 100% interest. Its principal activity is self-owned property management services and buying & selling of real estate.

During the year, the Bank has incorporated a wholly owned subsidiary, CBD (Cayman) Limited, which is a special purpose entity (SPE) registered in British Virgin Island. The SPE has been established for any future issuance of debts securities.

National General Insurance Co. (PSC) is an associate of the Bank and is listed in Dubai Financial Market. It underwrites all classes of life and general insurance business as well as certain reinsurance business. The Bank holds 17.8% interest in "National General Insurance Co. (PSC)". The management believes that it has significant influence on the associate by virtue of it having representation on the board of directors of the associate.

The registered address of the Bank is Al Ittihad Street, P.O. Box 2668, Dubai, United Arab Emirates.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the U.A.E.

Along with these consolidated financial statements, the Group has presented Basel II Pillar 3 disclosures in accordance with the guidelines issued by the Central Bank of the UAE. The application of Basel II Pillar 3 guidelines has impacted the type and amount of disclosures made in these consolidated financial statements, but has no impact on the reported profits or financial position of the Group. In accordance with the requirements of Basel II, the Group has provided full comparative information.

As required by the UAE Securities and Commodities Authority (SCA) notification number 85/2009 dated January 6, 2009, the Group's exposure in cash and advances with Central Bank of the UAE, Due from Banks and Investment Securities outside the UAE have been presented under the respective notes.

2. BASIS OF PREPARATION (continued)

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments classified as fair value through profit or loss, held for trading and available for sale are measured at fair value;
- Recognised assets and liabilities that are hedged item in a fair value hedge transaction are measured at fair value in respect of the risk that is hedged; and
- Granted land is valued at market value on the date of grant.

c) Functional and presentation currency

The consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Bank's functional currency, rounded to the nearest thousand unless otherwise stated.

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity are disclosed in Note 3 (z).

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, which it controls, as at 31 December 2015. Control is achieved when the Group 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 Group controls an investee if and only if the Group 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.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements of the Group from the date the Group gains control until the date the Group ceases to control the subsidiary.

2. BASIS OF PREPARATION (continued)

e) Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) is attributed to the equity holders of the parent of the Group and non-controlling interest. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the cumulative translation differences recorded in equity
- Derecognises the carrying amount of any non-controlling interest
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in consolidated income statement.
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(i) *Subsidiary*

A subsidiary is an entity that is controlled by the Bank. Control exists when the Bank has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date control commences until the date that control ceases.

(ii) *Associate*

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated income statement.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

2. BASIS OF PREPARATION (continued)

e) Basis of consolidation (continued)

(ii) Associate (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profit or loss of an associate'.

Upon loss of significant influence over the associate, the Group measures and recognises 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 retained investment and proceeds from disposal is recognised in the consolidated income statement.

(iii) Transactions eliminated on consolidation

Intra-group balances and income and expenses (except for foreign currency transactions gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the years presented in these consolidated financial statements.

a) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset for the Group and a financial liability or equity instrument for another party or vice versa. The Group classifies its financial assets at initial recognition in the following categories:

(i) Classification

➢ Financial assets at fair value through profit or loss (FVPL): This category has the following two sub-categories:

Financial assets held for trading

Financial assets held for trading are those that are acquired principally for the purpose of sale in the near term. They are recorded at fair value. Fair value changes are recognised in consolidated income statement.

Designated to be fair valued through profit or loss at inception

The Group designates financial assets at fair value through profit or loss in the following circumstances:

- The assets are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
- The asset contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

➢ Available-for-sale (AFS): Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or not classified as (i) financial assets at fair value through profit or loss, (ii) loans and advances or (iii) held-to-maturity investments. AFS assets are carried at fair value, with fair value changes recognised in other comprehensive income (OCI). These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(ii) Initial recognition

Purchases and sales of investment securities are recognised on the trade date which is the date on which the Group commits to purchase or sell the securities. Loans and advances are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs, which approximates to its cost, for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value, which approximates to its cost.

(iii) Derecognition

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

(iv) Subsequent measurement

Financial assets available-for-sale and at fair value through profit or loss are subsequently carried at fair value. Loans and advances are carried at amortised cost using the effective interest method, less impairment allowances.

(v) Embedded derivatives

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

(vi) Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss category are included in the consolidated income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income (OCI), until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in OCI is recognised in the consolidated income statement.

In cases where available-for-sale investments with a fixed maturity are reclassified as held-to-maturity investments, the fair value gains or losses until the date of the reclassification are held in OCI and amortised over the remaining life of the held-to-maturity investments using the effective interest rate method.

(vii) Fair value measurement principles

The Group measures financial instruments, such as derivatives and investments in equity and certain fixed income instruments, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(vii) Fair value measurement principles (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(viii) Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The hierarchy used by the Group is set out in notes 4.2, 9 and 10.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for sale in discontinued operation.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(ix) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the net carrying amount of the financial asset or financial liability.

(x) Identification and measurement of impairment

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

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level.

Individually assessed loans

At each reporting date, the Group assesses on a case-by-case basis whether there is any objective evidence that a loan is impaired. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. This procedure is applied to all accounts that are considered individually significant.

In determining impairment losses on these loans, the following factors are considered:

- the Group's aggregate exposure to the customer;
- the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding; and
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not local currency.
- When available, the secondary market price of debt.

Impairment losses are recognised in consolidated income statement and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(x) Identification and measurement of impairment (continued)

Collectively assessed loans

Impairment is determined on a collective basis in two different scenarios:

- for loans subject to individual assessment to cover losses which have been incurred but have not yet been identified; and
- for homogeneous groups of loans that are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been identified (performing loans) are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss.

This arises from individual loan impairment at the reporting date which will only be specifically identified in the future.

The collective impairment loss is determined after taking into account:

- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate specific allowance against the individual loan; and
- management's judgment as to whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by the management for each portfolio grouping.

Homogeneous groups of loans

For homogeneous groups of loans that are not considered individually significant, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment on investments classified as available-for-sale

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in OCI to consolidated income statement as a recycle adjustment. The cumulative loss that is recycled from OCI to consolidated income statement is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in consolidated income statement. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(x) Identification and measurement of impairment (continued)

Homogeneous groups of loans (continued)

Impairment on investments classified as available-for-sale (continued)

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated income statement, the impairment loss is reversed through consolidated income statement to the extent of amount earlier recognised as impairment loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the consolidated income statement and is recognised directly in other comprehensive income.

Impairment on investments classified as associates

Management reviews its share of investments in associates to assess impairment on a regular basis. In determining the assessment, management compares the recoverable amount with the carrying value of the investment. Estimating recoverable amount using value in use requires the Group to make an estimate of the expected future cash flows from the associates and choosing a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Derivative financial instruments

(i) Classification

The Group enters into derivative financial instruments including forwards, futures, swaps and options in the foreign exchange and capital markets. Derivative financial instruments, that do not qualify for hedge accounting are classified as "FVPL – financial assets held for trading" financial instruments.

(ii) Initial and subsequent measurement

In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to initial recognition, derivative financial instruments are stated at fair values. Fair values are generally obtained by reference to quoted market prices in active markets, or by using valuation techniques when an active market does not exist.

The positive mark to market values (unrealised gains) of derivative financial instruments is included in other assets. While, the negative mark to market values (unrealised losses) of derivative financial instruments is included in other liabilities.

(iii) Gains and losses on subsequent measurement

The gains or losses from derivative financial instruments classified as held for trading are taken to the consolidated income statement.

c) Hedging instruments

As part of its asset and liability management, the Group uses derivatives for hedging purpose.
When derivatives are designated as hedges, the Group classifies them as either:

- fair value hedges which hedge the change in the fair value of recognised assets or liabilities; or
- cash flow hedges which hedge the exposure to variability in highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction.

Hedge accounting is applied to derivatives designated as hedging instruments in fair value or cash flow hedge provided certain criteria are met.

Hedge accounting

(i) Hedge documentation

At the inception of the hedge, formal documentation of the hedge relationship must be established. The hedge documentation prepared at the inception of the hedge must include a description of the following:

- The Group's risk management objective and strategy for undertaking the hedge;
- The nature of risk being hedged;
- Clear identification of the hedged item and the hedging instrument; and
- How the Group will assess the effectiveness of the hedging relationship on an ongoing basis.

(ii) Hedge effectiveness testing

The hedge is regarded as highly effective if both of the following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value or cash flows of the hedging instruments with corresponding changes in the hedged risk and should be reliably measurable; and
- The actual results of the hedge effectiveness testing are within a range of 80 to 125 percent.

In case of a cash flow hedge, prospective hedge effectiveness is assessed by matching the critical terms of hedging instruments and hedged items.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Hedging instruments (continued)

(iii) Fair value hedge

The changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments is recognised in the consolidated income statement.

(iv) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the consolidated income statement.

(v) Discontinuance of hedge accounting

The hedge accounting is discontinued when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. At that point of time, any cumulative gain or loss on the hedging instrument that has been recognised in OCI remains in other comprehensive income until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

(vi) Hedges that do not qualify for hedge accounting

For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated income statement for the period.

d) Due from banks

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment, if any.

e) Loans and advances and Islamic financing

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Group chooses to carry the loans and advances at fair value through profit or loss.

In addition to conventional banking products, the Group offers its customers certain Islamic financing products, which are approved by Sharia'a Supervisory Board. Islamic Financing consists of the following:

Murabaha

An agreement whereby the Group sells to a customer, commodity or asset (subject asset), which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the subject asset and an agreed profit margin. Income is recognised on an accrual basis adjusted by actual income when received.

Ijarah

Ijarah refers to lease of the asset, which the Group (Lessor) constructs or purchases as per customer (Lessee) request based on the promise to lease the asset for a fixed term against certain rent installment. Ijara can end by transferring the ownership of the asset to the lessee in case of Ijara Muntahia Bittamleek.

Musharaka

An agreement whereby the Group and a customer contribute to a certain enterprise according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Loans and advances and Islamic financing (continued)

Islamic financing products are initially recognised at fair value and subsequently measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability.

f) Investment properties

The Group holds certain properties for its own use as well as to lease out. The leased out or intended to lease out components have been classified as investment properties. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less any accumulated depreciation and accumulated impairment losses.

Depreciation is charged using straight line method over the useful life of the asset. Estimated useful life of buildings is 20 to 30 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement under ‘other income’ in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease of another party or ending of construction or development.

Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner-occupation.

g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses except for granted land, which is stated at the market value at the date of grant.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing an item of property and equipment is recognised in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The day-to-day servicing expenses of property and equipment are recognised in the consolidated income statement as incurred.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment. These are included in the consolidated income statement.

Property and equipment is impaired if the carrying amount of the asset or its cash generating unit exceed its recoverable amount. The impairment loss is recognised in the consolidated income statement.

The cost of all property and equipment other than freehold land and capital work in progress is depreciated using the straight-line method over the following estimated useful lives:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Property and equipment (continued)

Buildings	20 to 30 years
Leasehold improvements	5 years
Furniture, equipment and vehicles	3 to 5 years

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

Capital work in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated in accordance with the Group's policies.

h) Due to banks, Notes and medium term borrowing

Amounts due to banks, notes and medium term borrowing are initially measured at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest method.

i) Repurchase agreement

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date the agreement is accounted for as a term borrowing depending on period of the agreement, and the underlying asset continues to be recognised in the Group's financial statement.

j) Customers' deposits and Islamic Customers' deposits

Customers' deposits are initially recognised at fair value, being the fair value of the consideration received. After initial recognition, all deposits are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs that are directly attributable to the acquisition or receipt of customer deposit.

The Islamic customer deposits are received by entering into following kinds of agreements:

Mudaraba

An agreement between the Group and a third party whereby one party would provide a certain amount of funds which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala

An agreement between Group and third party whereby one party (Muwakil) provides certain amount of funds which the other party (Wakil) would invest according to the terms and conditions of Wakala in return for a certain fee. The Wakil is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Islamic customers' deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Provisions

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

l) Employees' terminal benefits and long-term incentive arrangements

Provision is made for amounts payable under the UAE Federal Labour Law applicable to non UAE nationals' accumulated periods of service at the reporting date. The Group pays its contributions in respect of UAE nationals and GCC citizens under the UAE Pension and Social Security Law. Effective from 1 January 2007, the Group introduced a long term incentive plan ("the plan"). Under this plan certain key employees are eligible for an incentive at the offering date contingent upon the Group's performance up to an award date. The award is the percentage of the actual salary of the eligible key employees. The salary includes the basic salary, allowance, national allowance and cost of living allowance as at the effective date. The obligation towards the plan is accrued in the period when the key employees are eligible for such awards in accordance with the plan.

m) Share capital

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

n) Dividend on ordinary shares

Dividends payable on ordinary shares are recognised as a liability in the period in which they are approved by the Bank's shareholders.

o) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Group has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or of gains and losses arising from a group of similar transactions such as in the Group's trading activity.

p) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and balances with the Central Bank (excluding statutory reserve), and amounts due from and due to banks with original maturity less than three months. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

q) Revenue recognition

(i) Interest income and expense

Interest income and expense for all interest bearing financial instruments except for those classified as held for trading or designated at fair value through profit or loss, are recognised in 'interest income' and 'interest expense' in the consolidated income statement on an accrual basis using the effective interest rates of the financial assets or financial liabilities to which they relate. Interest income and expense for financial instruments classified as held for trading or designated at fair value through profit or loss is recognised as trading income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Revenue recognition (continued)

(i) Interest income and expense (continued)

The effective interest rate is the rate that discounts estimated future cash receipts and payments earned or paid on a financial asset or a liability through its expected life or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

When calculating effective interest rates, the Group estimates cash flows considering all contractual terms of the financial instruments, but not future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

(ii) Income from Islamic financing and distributions to depositors

Income from Islamic financing is recognised in the consolidated income statement using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Distribution to Depositors (Islamic products) is calculated according to the Group's standard procedures and is approved by the Group's Sharia'a Supervisory Board.

(iii) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of effective interest rate.

Other fees and commission income earned from the provision of services are recognised as revenue, as and when the services are rendered or on a time proportion basis as applicable.

(iv) Income from investments

Net income from investments at fair value through profit or loss which arises from gains and losses resulting from disposal, and from the fair valuation of such investments, are recognised when they occur. Gains resulting from disposal of AFS investments are recognised in profit or loss when they occur. Gains resulting from valuation are recognised in OCI until disposal at which time it will be recycled to profit or loss.

(v) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease.

(vi) Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

(vii) Share of profit from associate

Share of profit from associate reflects the Group's share of the results of operations of the associate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Revenue recognition (continued)

viii) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to AED at the foreign exchange rates ruling at the dates that the fair values were determined.

Forward foreign exchange contracts are translated into AED at market rates of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the consolidated income statement.

r) Leasing

The Group has entered into leasing arrangements which based on the evaluation of the terms and condition of the leasing arrangement has been classified as operating lease. Leases are classified as operating leases if risk and reward incidental to ownership of the leased asset lie with lessor.

Group as lessor

Asset subjected to operating lease are presented in the consolidated statement of financial position according to the nature of the asset. Income from operating leases are recognised in the consolidated income statement on straight line basis over the lease term.

Group as lessee

Lease payments under operating leases are recognised as expense on a straight line basis over the lease term.

s) Fiduciary activities

The Group provides wealth management solutions to manage client assets. These assets are held in the Group's custody and are invested on behalf of the client in third party funds, and other securities like bonds and sukuk.

These assets and income arising from these assets are not included in the Group's consolidated financial statements as the risk and rewards incidental to ownership of these assets lie with the client.

t) 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, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated income statement, and the best estimate of amount required to settle any financial obligation arising as a result of the guarantee.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Derivative product types

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 customized contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, the underlying amounts are exchanged in different currencies.

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.

I. 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 favorable to the Group and potential future fluctuations. The majority of the fair value of favorable contracts (and therefore credit risk) is exposure to financial institutions.

II. Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales and position coverage. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading are conducted under Board approved limits.

Derivatives are initially recognised in the financial statements at its fair value, being the premium received / paid. Subsequent to initial recognition derivatives (held for trading) are measured at fair value with fair value changes recognised in the income statement.

v) Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date, and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Group and is therefore recognised as a financial liability (Note 16) in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset (Note 12).

w) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Business Committee of the Group to make decisions about resources allocated to the segment and assess its performance, and for which distinct financial information is available. Segment results that are reported to the Business Committee of the Group include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

y) Related Parties

An entity is considered related party of the Group if:.

a) A person or a close member of that person's family is related to the Group if that person:
   i. has control or joint control of the Group;
   ii. has significant influence over the Group; or
   iii. is a member of the key management personnel of the Group.

b) An entity is related to a Group if any of the following conditions applies:
   i. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v. The entity is controlled or jointly controlled by a person identified in (a).
   vi. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may therefore differ, resulting in future changes in these estimates.

In particular, considerable management judgment is required in respect of the following issues:

Impairment losses on loans and advances and Islamic financing

The Group reviews its loan portfolios to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows (excluding future expected credit losses that have not yet been incurred). The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of available-for-sale investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology or operational and financing cash flows.

Impairment of investment property

Investment properties are assessed for impairment based on assessment of cash flows on individual cash-generating units when there is indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discounting rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any probable impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Use of estimates and judgments (continued)

Impairment on non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, which suffered impairment, are reviewed for possible reversal of the impairment at each reporting date.

aa) Standards and interpretation

Issued and effective for accounting periods beginning on 1 January 2015

Following are the amendments to IFRSs which have been applied by the Group in these consolidated financial statements. The adoption of these amendments has no significant impact on the financial performance or position of the Group. Amendments that are relevant to the Group's financial statements are set out below:

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 recognize 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.

Annual Improvements 2010-2012 Cycle
With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

IFRS 3 Business Combinations
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) Standards and interpretation (continued)

Issued and effective for accounting periods beginning on 1 January 2015(continued)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

• An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'

• The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

The Group has not applied the aggregation criteria in IFRS 8.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) Standards and interpretation (continued)

Issued but not yet effective for accounting periods beginning on or after 1 January 2015(continued)

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

Amendments to IAS 1 – Disclosure Initiative

The amendments provide clarifications and narrow-focus improvements on materiality, presentation of primary statements, structure of notes, disclosure of accounting policies, and presentation of OCI arising from equity accounted investments.

The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose and how to structure notes in their financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities – Applying the consolidation exception

The amendments define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 - Investments in Associates & Joint Ventures

The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

(a)Require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations).

(b)Require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

IFRS 15 Revenue from contract with customers

This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18,'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) Standards and interpretation (continued)

Issued but not yet effective for accounting periods beginning on or after 1 January 2015(continued)

IFRS 16 Leases

IFRS 16 Leases requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied.

IFRS 9, 'Financial instruments'

The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

(a) Classification and measurement

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets:

a) amortised cost,
b) fair value through other comprehensive income (OCI); and
c) fair value through profit and loss.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

(b) Impairment

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis.

(c) Hedging

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The Group is in the process of analyzing the impact of IFRS 9. The Group has assessed the impact of other standards, amendments to standards, revisions and interpretations. Based on the assessment, the above standards, amendments to standards, revisions and interpretations (excluding IFRS 9) are not expected to have a material impact on the consolidated financial statements of the Group as at the reporting date.

4. FINANCIAL ASSETS AND LIABILITIES

4.1 Financial assets and liabilities classification

The table below sets out the Group's assets and liabilities classification in accordance with the categories of financial instruments in IAS 39:

		Amortised Cost			Other	Total
	Fair value through Profit or loss AED'000	Held-to-maturity AED'000	Loans and receivables AED'000	Available-for-sale at fair value AED'000	amortised cost AED'000	carrying amount AED'000
2015						
Cash and balances with central bank	**-**	**-**	**-**	**-**	**6,668,065**	**6,668,065**
Due from banks	**-**	**-**	**-**	**-**	**2,591,717**	**2,591,717**
Loans and advances and Islamic financing	**-**	**-**	**39,020,821**	**-**	**-**	**39,020,821**
Investment securities	**19,898**	**-**	**-**	**6,603,131**	**-**	**6,623,029**
Other assets	**46,253**	**-**	**-**	**-**	**2,120,692**	**2,166,945**
Total financial asset	**66,151**	**-**	**39,020,821**	**6,603,131**	**11,380,474**	**57,070,577**
Due to banks	**-**	**-**	**-**	**-**	**1,111,462**	**1,111,462**
Customers' deposits and Islamic customers' deposits	**-**	**-**	**-**	**-**	**40,474,776**	**40,474,776**
Notes and medium term borrowing	**-**	**-**	**-**	**-**	**5,492,694**	**5,492,694**
Other liabilities	**39,988**	**-**	**-**	**-**	**2,405,074**	**2,445,062**
Total financial liabilities	**39,988**	**-**	**-**	**-**	**49,484,006**	**49,523,994**
2014						
Cash and balances with central bank	-	-	-	-	5,450,145	5,450,145
Due from banks	-	-	-	-	1,872,327	1,872,327
Loans and advances and Islamic financing	-	-	31,821,502	-	-	31,821,502
Investment securities	29,371	-	-	5,558,627	-	5,587,998
Other assets	23,159	-	-	-	1,337,435	1,360,594
Total financial asset	52,530	-	31,821,502	5,558,627	8,659,907	46,092,566
Due to banks	-	-	-	-	1,097,926	1,097,926
Customers' deposits and Islamic customers' deposits	-	-	-	-	32,161,339	32,161,339
Notes and medium term borrowing	-	-	-	-	4,021,998	4,021,998
Other liabilities	21,683	-	-	-	1,650,649	1,672,332
Total financial liabilities	21,683	-	-	-	38,931,912	38,953,595

The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

4. FINANCIAL ASSETS AND LIABILITIES (continued)

4.2 Fair value measurement – Fair value hierarchy:

The below table, shows the fair value hierarchy of the financial assets and the financial liabilities:

2015	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**
Investments			
Equity	**149,413**	**-**	**-**
Fund of funds	**-**	**264,165**	**-**
Fixed and floating rate securities	**6,209,451**	**-**	**-**
Positive market value of forward foreign exchange contracts and other derivatives	**-**	**46,253**	**-**
Negative market value of forward foreign exchange contracts and other derivatives	**-**	**(39,988)**	**-**
	6,358,864	**270,430**	**-**

2014	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**
Investments			
Equity	159,011	-	-
Fund of funds	-	272,685	-
Fixed and floating rate securities	5,156,302	-	-
Positive market value of forward foreign exchange contracts and other derivatives	-	23,159	-
Negative market value of forward foreign exchange contracts and other derivatives	-	(21,683)	-
	5,315,313	274,161	-

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

5. CASH AND BALANCES WITH CENTRAL BANK

	2015	2014
	AED'000	AED'000
Cash on hand	**530,397**	445,682
Balances with UAE Central Bank		
- Clearing account balances	**497,509**	99,145
- Statutory reserves	**2,640,159**	2,405,318
- Negotiable certificates of deposit	**3,000,000**	2,500,000
	6,668,065	5,450,145

6. DUE FROM BANKS

	2015	2014
	AED'000	AED'000
Current and demand deposits	**105,858**	187,897
Placements	**2,138,058**	1,377,415
Loans to Banks	**347,801**	307,015
	2,591,717	1,872,327

The geographical concentration is disclosed in note 33b.

7. LOANS AND ADVANCES AND ISLAMIC FINANCING

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

Loans and advances	**2015 AED'000**	2014 AED'000
Overdrafts	**4,899,530**	5,241,049
Loans	**31,191,374**	25,488,563
Advances against letters of credit and trust receipts	**1,247,576**	885,449
Bills discounted	**706,835**	881,213
Gross loans and advances	**38,045,315**	32,496,274
Islamic financing		
Murabaha	**1,503,615**	828,832
Ijara	**1,846,785**	1,434,813
Musharaka	**10,947**	-
Others	**290,784**	98,524
Gross Islamic financing	**3,652,131**	2,362,169
Gross loans and advances and Islamic financing	**41,697,446**	34,858,443
Provisions for impairment losses	**(2,676,625)**	(3,036,941)
Net loans and advances and Islamic financing	**39,020,821**	31,821,502

The movements in provisions for impairment losses are as follows:

	Interest suspended AED'000	**Specific provisions AED'000**	**Collective provisions AED'000**	**Total AED'000**
Opening balance 1 January 2015	**497,642**	**2,014,080**	**525,219**	**3,036,941**
Interest not recognised / new provisions raised	**186,990**	**347,826**	**153,570**	**688,386**
Less:				
Written-Off	**(237,698)**	**(664,588)**	**-**	**(902,286)**
Recoveries / reversal to income	**(64,991)**	**(81,425)**	**-**	**(146,416)**
Closing Balance 31 December 2015	**381,943**	**1,615,893**	**678,789**	**2,676,625**

	Interest suspended AED'000	**Specific provisions AED'000**	**Collective provisions AED'000**	**Total AED'000**
Opening balance 1 January 2014	478,482	1,877,746	473,995	2,830,223
Interest not recognised / new provisions raised	204,377	296,064	51,224	551,665
Less:				
Written-Off	(78,653)	(98,596)	-	(177,249)
Recoveries / reversal to income	(106,564)	(61,134)	-	(167,698)
Closing Balance 31 December 2014	497,642	2,014,080	525,219	3,036,941

The economic sector composition of the loans and advances and Islamic financing is set out in note 33-b.

8. INVESTMENT SECURITIES

2015	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
Held for trading				
Equities	**-**	**-**	**-**	**-**
Fixed rate securities				
- Government	**16,284**	**-**	**-**	**16,284**
- Others	**3,614**	**-**	**-**	**3,614**
Available-for-sale				
Equities	**149,413**	**-**	**-**	**149,413**
Fund of funds	**458**	**21,127**	**242,580**	**264,165**
Fixed rate securities				
- Government	**2,208,097**	**396,761**	**126,556**	**2,731,414**
- Others	**1,693,656**	**771,333**	**532,876**	**2,997,865**
Floating rate non-government securities	**333,720**	**61,795**	**64,759**	**460,274**
Total investment securities	**4,405,242**	**1,251,016**	**966,771**	**6,623,029**

2014	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
Held for trading				
Equities	771	-	993	1,764
Fixed rate securities				
- Government	23,675	3,932	-	27,607
- Others	-	-	-	-
Available-for-sale				
Equities	157,247	-	-	157,247
Fund of funds	15,328	36,815	220,542	272,685
Fixed rate securities				
- Government	1,750,825	312,076	-	2,062,901
- Others	1,317,490	729,809	537,186	2,584,485
Floating rate non-government securities	320,925	96,705	63,679	481,309
Total investment securities	3,586,261	1,179,337	822,400	5,587,998

8. INVESTMENT SECURITIES (continued)

8.1. AFS debt securities

The below table shows the rating of AFS debt securities:

	2015 AED'000	2014 AED'000
Rated Aaa to Aa3	**492,159**	165,370
Rated A1 to A3	**2,296,764**	1,951,626
Rated BBB+ to BBB-	**2,320,484**	1,969,700
Rated BBB- and below	**53,833**	220,631
Unrated	**1,026,313**	821,368
	6,189,553	5,128,695

8. 2. Fund of funds investments

This represents investments in global and regional asset management funds as a part of the Group's strategy of diversifying its holdings. These investments are carried at net assets value provided by the respective fund managers.

9. INVESTMENT IN ASSOCIATE

Equity accounting was applied using management information available at the time of the Board approval date and subsequent changes are not considered material. The following is the aggregated financial information of the associate:

	2015 AED'000	2014 AED'000
Assets	**1,093,247**	961,275
Liabilities	**631,111**	484,642
Revenue	**38,288**	124,877

	2015 AED'000	2014 AED'000
At 1 January	**84,590**	72,862
Share of profit of associate	**4,741**	17,567
Dividend received	**(6,653)**	(5,322)
Share of OCI of associate	**-**	305
Others	**(649)**	(822)
At 31 December	**82,029**	84,590

Fair value of the Group's share of associate as at 31 December 2015 was AED 93.15 million (31 December 2014: AED 101.1 million). The fair value of associate is based on quoted price on Dubai Financial Market. Fair Value of the associate represents level 1 of the fair value hierarchy.

10. INVESTMENT PROPERTIES

The movement in investment properties during the year is as follows:

	2015	2014
	AED'000	AED'000
Cost		
At 1 January	**342,822**	342,720
Additions	**93,351**	102
At 31 December	**436,173**	342,822
Depreciation		
At 1 January	**92,831**	82,867
Charge for the year	**9,581**	9,964
At 31 December	**102,412**	92,831
Net book value		
At 31 December	**333,761**	249,991

Investment properties comprises buildings. Rental income from investment properties leased under operating lease recorded in other income is AED 32.9 million *(2014: AED 30.3 million).*

The fair value of investment properties as at 31 December 2015 is AED 608 million *(2014: AED 584 million).* The fair value of investment properties represents management's internally estimated market value of the properties using discounted cash flow method. The management uses cash flows, rent growth, long term vacancy rate and discount rate as the key inputs for valuation of investment properties. Significant changes in key inputs considered in isolation would result in a significant change in fair value of investment properties. Fair value of investment properties represents level 3 of the fair value hierarchy.

During the year, property with a carrying value of AED 91 million was transferred from other assets to investment properties. This non cash transaction is included in additions during the year.

11. PROPERTY AND EQUIPMENT

	Freehold land and buildings AED'000	Leasehold improve-ments AED'000	Furniture, equipment & vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2015	**385,328**	**38,404**	**305,506**	**12,269**	**741,507**
Additions during the year	**6,046**	**3,549**	**6,590**	**34,102**	**50,287**
Transfer from capital work in progress to property and equipment	**-**	**15,901**	**20,831**	**(36,732)**	**-**
Disposals	**-**	**-**	**(2,344)**	**(527)**	**(2,871)**
At 31 December 2015	**391,374**	**57,854**	**330,583**	**9,112**	**788,923**
Depreciation					
At 1 January 2015	**137,474**	**32,693**	**247,488**	**-**	**417,655**
Charge for the year	**10,529**	**3,970**	**26,559**	**-**	**41,058**
On disposals	**-**	**-**	**(2,107)**	**-**	**(2,107)**
At 31 December 2015	**148,003**	**36,663**	**271,940**	**-**	**456,606**
Net book values					
At 31 December 2015	**243,371**	**21,191**	**58,643**	**9,112**	**332,317**

	Freehold land and buildings AED'000	Leasehold improve-ments AED'000	Furniture, equipment & vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2014	385,240	38,132	272,140	13,222	708,734
Additions during the year	88	499	17,382	23,160	41,129
Transfer from capital work in progress to property and equipment	-	-	21,927	(21,927)	-
Disposals	-	(227)	(5,943)	(2,186)	(8,356)
At 31 December 2014	385,328	38,404	305,506	12,269	741,507
Depreciation					
At 1 January 2014	127,136	29,015	231,310	-	387,461
Charge for the year	10,338	3,681	21,713	-	35,732
On disposals	-	(3)	(5,535)	-	(5,538)
At 31 December 2014	137,474	32,693	247,488	-	417,655
Net book values					
At 31 December 2014	247,854	5,711	58,018	12,269	323,852

Freehold land and buildings includes the market value of a plot of land granted to the Group by the Government of Dubai in 1998. Granted land is valued at market value on the date of grant.

The Group assessed whether there is an indication that an asset may be impaired and concluded that there was no indication of impairment.

12. OTHER ASSETS

	2015 AED'000	2014 AED'000
Interest receivable	**223,968**	217,478
Accounts receivable and prepayments	**70,330**	151,491
Customer's indebtedness for acceptances	**1,871,598**	1,096,022
Positive mark to market value of derivatives (note 29)	**46,253**	23,159
	2,212,149	1,488,150

13. DUE TO BANKS

	2015 AED'000	2014 AED'000
Current and demand deposits	**216,975**	560,999
Short term borrowings	**894,487**	536,927
	1,111,462	1,097,926

14. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMERS' DEPOSITS

Customers' deposits	2015 AED'000	2014 AED'000
Current and demand accounts	**14,125,599**	13,085,481
Savings accounts	**1,495,090**	1,411,014
Time deposits	**16,954,852**	10,880,955
	32,575,541	25,377,450

Islamic customers' deposits	2015 AED'000	2014 AED'000
Current and demand accounts	**1,082,054**	955,337
Mudaraba savings accounts	**548,916**	467,467
Investment and Wakala deposits	**6,268,265**	5,361,085
	7,899,235	6,783,889
Total customers' deposits and Islamic customers' deposits	**40,474,776**	32,161,339

By sector:	2015 AED'000	2014 AED'000
Government	**8,664,490**	5,445,838
Corporate	**21,919,592**	17,755,414
Personal	**9,890,694**	8,960,087
	40,474,776	32,161,339

15. NOTES AND MEDIUM TERM BORROWINGS

Syndicated loan

In December 2013, the Group entered into a club deal of USD 450 million (AED 1,653 million) for a term of 3 years with an option to roll over on a quarterly or semi-annual basis. This replaced the syndicated loan arrangement of USD 450 million maturing in August 2014, which was prepaid in October 2013 and carried interest at the rate of 3 month LIBOR plus 175 basis points payable on a quarterly basis. The current arrangement carries interest at the rate of 3 month LIBOR plus 125 basis points payable on a quarterly basis.

Repurchase agreements

In July 2012, the Group entered into Repo transactions to obtain financing against the sale of certain debt securities, amounting to USD 150.1 million (AED 551 million) with arrangements to repurchase them at a fixed future date in July 2017.

These securities are carried at fair value amounting to USD 181.1 million (AED 665.2 million) (2014: USD 182.6 million (AED 670.7 million)).

Euro medium term notes

In 2013 CBD activated its Euro Medium Term Note (EMTN) program, which was launched in 2008. The maximum issuance under the program is USD 2 billion (AED 7.3 billion). These notes can be distributed by way of private or public placements and in each case on a syndicated or non-syndicated basis. These notes can be priced at fixed rate, floating rate or can be index linked.

In May 2013, CBD issued USD 500 million (AED 1,836.5 million) of conventional bonds. These notes were priced at 3.375 per cent fixed rate and mature on 21 May 2018.

During the year CBD issued USD 400 million (AED 1,469.2 million) of conventional bonds. These notes were priced at 4 per cent fixed rate and mature on 17 November 2020.

16. OTHER LIABILITIES

	2015 AED'000	2014 AED'000
Interest payable	**117,043**	53,445
Employees' terminal benefits	**66,777**	64,995
Accounts payable	**416,433**	501,182
Unearned fee income	**44,313**	49,552
Negative mark to market value of derivatives (note 29)	**39,988**	21,683
Liabilities under acceptances	**1,871,598**	1,096,022
	2,556,152	1,786,879

17. EQUITY

Share capital

The fully paid up and authorised ordinary share capital as at 31 December 2015 comprised 2,802,733,968 ordinary shares of AED 1 each *(2014:* 2,242,187,174 *shares of AED 1 each*). The movement in no. of shares during the year is as follows:

	2015	2014
As at 1 January	**2,242,187,174**	2,038,351,976
Bonus shares issued during the year	**560,546,794**	203,835,198
As at 31 December	**2,802,733,968**	2,242,187,174

Legal reserve

Federal Law No. 8 of 1984 (as amended), Union Law No. 10 of 1980 and the Bank's Articles of Association require that a minimum of 10% of the annual net profit be transferred to a legal reserve, until such time as this reserve equals 50% of share capital. During the current year an amount of AED 20,872 thousand (2014: AED 682 thousand) was transferred to the legal reserve, being the maximum amount required for the reserve to equal 50% of the share capital. The legal reserve is not available for distribution except under the circumstances stipulated by the relevant law.

Capital reserve

This reserve represents the market value of the granted land at the date of grant as explained in note 11, and is not available for distribution to the shareholders.

General reserve

In accordance with article 87 of the Bank's Articles of Association, a minimum of 10% of the annual net profit to be transferred to general reserve until such time as this reserve equals 50% of share capital. During the current year an amount of AED 106,623 thousand (2014: AED 21,095 thousand) was transferred to the general reserve. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the Shareholders.

Cumulative changes in fair values of AFS investments and cash flow hedge instruments

This represents the net change in the fair values of available-for-sale investments and derivative instruments designated as cash flow hedge instruments held by the Group at reporting date. This reserve is not available for distribution to the shareholders.

Proposed distribution

The Board of Directors has proposed the following distribution for approval by the Annual General Meeting of the shareholders to be held on 28th February 2016.

***i)**<u>Proposed cash dividend</u>*

A cash dividend of 20% *(2014: 25%)* of the share capital amounting to AED 560,546,794 (2014: AED 560,546,794) is proposed representing a dividend of AED 0.2 per share (2014: AED 0.25 per share).

***ii)** <u>proposed bonus issue</u>*

No bonus issue is proposed (2014: 25%).

***iii)**<u>Proposed directors' remuneration</u>*

In accordance with Article 118 of Federal Law No.8 of 1984, directors' remuneration amounting to AED 11,000,000 (2014: AED 10,540,000) has been treated as an appropriation from equity.

18. INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2015	2014
Interest income	**AED'000**	AED'000
Loans and advances	**1,652,277**	1,555,500
Negotiable certificates of deposit with the Central Bank	**1,315**	3,067
Due from banks	**4,973**	2,545
Investment securities		
- Held-to-maturity bonds	**-**	646
- Available-for-sale bonds	**155,658**	138,839
	1,814,223	1,700,597
Income from Islamic financing		
Murabaha	**60,814**	31,407
Ijara	**82,955**	92,738
Musharaka	**522**	864
Negotiable certificate of deposit with central bank	**148**	-
Investment securities		
- Available-for-sale sukuk	**4,369**	1,452
	148,808	126,461
Total interest income and income from Islamic financing	**1,963,031**	1,827,058

19. INTEREST EXPENSE AND DISTRIBUTION TO ISLAMIC DEPOSITORS

	2015	2014
Interest expense	**AED'000**	AED'000
Due to banks	**2,500**	531
Customers' deposits	**142,323**	87,751
Notes and medium term borrowings	**116,196**	107,949
Others	**1,948**	268
	262,967	196,499
Distribution to Islamic depositors		
Islamic customers' deposits	**60,033**	47,594
	60,033	47,594
Total interest expense and distribution to Islamic depositors	**323,000**	244,093

Distribution to Islamic depositors represents the share of income allocated to Islamic depositors of the Group. The allocation and distribution is approved by the Group's Sharia'a Supervisory Board.

20. NET FEES AND COMMISSION INCOME

	2015 AED'000	2014 AED'000
Lending activities	**162,066**	106,783
Trade finance activities	**138,553**	112,802
Account operating activities	**158,176**	141,337
Cards income and brokerage fees	**75,073**	78,670
	533,868	439,592
Cards, commissions and brokerage expenses	**(35,618)**	(34,203)
	498,250	405,389

21. NET GAINS FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS - HELD FOR TRADING

	2015 AED'000	2014 AED'000
Net realised gains on sale of investments at fair value through profit or loss- held for trading	**2,540**	2,445
Net unrealised (losses) / gains on investments at fair value through profit or loss- held for trading	**(1,293)**	61
	1,247	2,506

22. DIVIDEND INCOME

	2015 AED'000	2014 AED'000
Investments at fair value through profit or loss – held for trading	**16**	136
Available-for-sale investments	**6,051**	6,443
	6,067	6,579

23. STAFF AND OTHER EXPENSES

Staff and other expenses include staff related expenses of AED 606.7 million (*2014: AED* 508.9 *million*) and sitting fees paid to directors for attending committee meetings during the year ended 31 December 2015 of AED 2.9 million (31 December 2014: AED 2.3 million) and corporate social responsibility (CSR) related expenses of AED 2.97 million (31 December 2014: AED 1.02 million).

24. OPERATING LEASES

Group as lessee

General and administrative expenses include rental expense under operating leases of AED 21.94 million (2014: AED 16.1 million). Non-cancellable operating lease rental payable as at 31 December is as follows:

	2015	2014
	AED '000	AED '000
Less than one year	**11,099**	8,062

Group as lessor

Operating leases relate to the Group's investment properties. Non-cancellable operating lease rental receivables are as follows

	2015	2014
	AED '000	AED '000
Less than one year	**13,724**	14,227

25. BASIC AND DILUTED EARNINGS PER SHARE

The earnings per share (EPS) is based on the Group's profit for the year amounting to AED 1,066.2 million (*2014: AED 1,202.3 million),* and on the weighted average number of shares in issue totaling 2,802,733,968 (*2014:* 2,802,733,968). Weighted average number of shares used for EPS calculation for 2014 is adjusted for bonus shares issued in 2015.

There was no dilutive effect on earnings per share.

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flow comprise the following statement of financial position amounts:

	2015	2014
	AED'000	AED'000
Cash on hand	**530,397**	445,682
Balances with the Central Bank	**497,509**	99,145
Negotiable certificates of deposit with the Central Bank with original maturity less than three months	**2,600,000**	2,400,000
Due from banks with original maturity less than three months	**2,243,916**	1,565,312
	5,871,822	4,510,139
Due to banks with original maturity less than three months	**(909,447)**	(1,047,926)
	4,962,375	3,462,213

27. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letters of credit, guarantees and forward foreign exchange contracts which are designed to meet the requirements of the Group's customers toward third parties. Commitments represent the Group's commitments towards approved un-drawn credit facilities. The amount of contingent liabilities reflected below represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2015	2014
	AED'000	AED'000
Contingent liabilities:		
Letters of credit	**1,071,325**	1,091,458
Guarantees	**7,868,227**	6,656,419
	8,939,552	7,747,877
Credit commitments:		
Undrawn commitments to extend credit	**17,222,605**	11,900,926
Capital commitments:		
Capital expenditure commitments	**16,800**	16,737
Total contingent liabilities and commitments	**26,178,957**	19,665,540

28. FIDUCIARY ASSETS

Assets held under fiduciary capacity on behalf of clients amounted to AED 1,568.4 million (2014: AED 1,472.6 million)**.**

29. DERIVATIVES

The following table shows the fair values of derivative financial instruments at the reporting date, together with the notional amounts, analyzed by terms to maturity. The notional amount is the value of the derivative's underlying asset 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 therefore, are neither indicative of the Group's exposure to credit risk nor market risk. Credit risk on derivatives is limited to its positive fair value if any.

31 December 2015	**Positive market value**	**Negative market value**	**Notional amount**	**Less than three months**	**From three months to one year**	**From one year to five years**	**Over Five years**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash flow hedge instrument	**946**	**-**	**130,993**	**-**	**40,716**	**30,092**	**60,185**
Forward foreign exchange contracts and other derivatives assets	**45,307**	**-**	**6,478,294**	**4,277,428**	**551,183**	**636,913**	**1,012,770**
Forward foreign exchange contracts and other derivatives liabilities	**-**	**39,988**	**5,038,760**	**1,822,424**	**1,799,861**	**442,455**	**974,020**
	46,253	**39,988**	**11,648,047**	**6,099,852**	**2,391,760**	**1,109,460**	**2,046,975**

29. DERIVATIVES (continued)

31 December 2014	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000	Less than three months AED'000	From three months to one year AED'000	From one year to five years AED'000	Over Five years AED'000
Cash flow hedge instrument	-	349	42,368	-	-	42,368	-
Forward foreign exchange contracts and other derivatives assets	23,159	-	4,197,311	2,055,486	1,245,082	162,143	734,600
Forward foreign exchange contracts and other derivatives liabilities	-	21,334	3,746,173	1,263,271	1,620,296	101,756	760,850
	23,159	21,683	7,985,852	3,318,757	2,865,378	306,267	1,495,450

30. SEGMENTAL REPORTING

The primary format, business segments, is based on the Group's management and internal reporting structure that are regularly reviewed by the Executive Committee in order to allocate resources to the segment and to assess its performance.

Business segments pay to and receive interest from the Treasury on a mutually agreed basis to reflect the allocation of capital and funding costs.

Business segments

Corporate banking	Includes loan and other credit facilities, deposits, trade finance products and e-commerce solutions to large corporate clients (including Government related entities).
Commercial banking	Includes loans, working capital financing, trade finance and deposits products to commercial (mid-sized) clients.
Personal banking	Includes current accounts, easy access saving accounts, fixed rate deposit accounts, personal loans, overdraft facilities, vehicle finance, mortgage products, loans and other credit facilities to business (small) clients, high net-worth (Al Dana), mid-tier clients (personal) and modest income group (direct).
Treasury and investments	Undertakes balance sheet management deals in derivatives for trading and for risk management purposes and manages the Group's proprietary investment portfolio.

Interest is charged or credited to business segments and branches to match funding transfer pricing rates which approximate the replacement cost of funds. From June 2014, the transfer pricing methodology was amended to appropriately allocate funding and liquidity costs among various business segments. The change provides an improved analysis of the underlying performance of each segment. Comparative figures have not been adjusted retrospectively.

Geographical

The Group operates in one geographic area, the United Arab Emirates.

30. SEGMENTAL REPORTING (continued)

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

31 December 2015	**Corporate banking AED'000**	**Commercial banking AED'000**	**Personal banking AED'000**	**Treasury & investments AED'000**	**Total AED'000**
Assets	**24,246,649**	**10,689,252**	**6,852,642**	**16,075,345**	**57,863,888**
Liabilities	**13,531,371**	**8,089,448**	**13,203,981**	**14,810,284**	**49,635,084**
31 December 2014					
Assets	21,046,632	8,203,749	4,861,396	12,766,778	46,878,555
Liabilities	15,474,946	6,028,734	12,417,019	5,147,443	39,068,142
31 December 2015					
Net interest income and net income from Islamic financing	**550,221**	**428,008**	**445,041**	**216,761**	**1,640,031**
Non-interest & other income	**224,009**	**166,095**	**241,482**	**80,620**	**712,206**
Total operating income	**774,230**	**594,103**	**686,523**	**297,381**	**2,352,237**
Direct and allocated cost					**808,145**
Depreciation and amortisation					**50,639**
Provisions for impairment losses net of recoveries					**414,596**
Impairment allowance on AFS investment					**12,628**
Total expenses					**1,286,008**
Net profit for the year					**1,066,229**
31 December 2014					
Net interest income and net income from Islamic financing	626,532	427,412	306,799	222,222	1,582,965
Non-Interest & Other Income	213,982	142,732	176,577	124,174	657,465
Total operating income	840,514	570,144	483,376	346,396	2,240,430
Direct and allocated cost					708,738
Depreciation and amortisation					45,696
Provisions for impairment losses net of recoveries					283,740
Total expenses					1,038,174
Net profit for the year					1,202,256

As explained earlier, had the change in intersegment pricing been done at 1 January 2014, the net interest income and net income from Islamic financing for the year ended 31 December 2014 would have been as follows:

	Corporate banking AED'000	Commercial banking AED'000	Personal banking AED'000	Treasury & investments AED'000	Total AED'000
31 December 2014					
Net interest income and net income from Islamic financing	569,513	380,786	289,178	343,488	1,582,965

31. RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, directors, key management personnel and their related entities. The terms of these transactions are approved by the Group's Board of Directors.

	Directors and key management personnel		**Other related parties**	
	2015 AED'000	2014 AED'000	**2015 AED'000**	2014 AED'000
Loans and advances	**169,368**	156,730	**2,682,502**	2,789,117
Due from banks	**-**	-	**600,000**	211,910
Investment securities	**-**	-	**820,465**	803,397
Acceptances	**-**	-	**12,071**	16,932
Letters of credit	**-**	-	**16,764**	28,208
Letters of guarantees	**-**	-	**690,668**	612,091
Undrawn commitments to extend credit	**15,732**	21,909	**1,920,127**	851,857
	======	======	=======	========
Deposits	**15,772**	22,697	**7,665,418**	5,857,944
	======	======	========	========

	2015 AED'000	2014 AED'000	**2015 AED'000**	2014 AED'000
Interest income and commission income	**8,505**	8,845	**92,918**	99,433
Interest expense	**10**	46	**71,144**	34,921
	=====	=====	=====	=====

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Other related parties represent major shareholders and parties related to Directors, key management personnel.

No provisions for impairment have been recognised in respect of loans given to related parties *(31 December 2014: NIL).*

The loans issued to directors are unsecured and repayable monthly over a maximum period of 5 years *(31 December 2014: 5 years)* and carry interest at the rates comparable to the third party loans.

Proposed directors remuneration for 2015 AED 11,000 thousand *(31 December 2014: 10,540 thousand)* is reflected in consolidated statement of changes in equity.

Key management compensation

	2015 AED'000	2014 AED'000
Salaries	**11,835**	11,253
Post-employment benefits	**786**	1,524
Other benefits	**7,622**	8,949
	=====	=====

32. RISK MANAGEMENT OBJECTIVES AND POLICIES

32.1 Risk Governance

The Board of Directors (the "Board") has the overall responsibility for the operations and the financial stability of the Group, and ensures that the interests of shareholders, depositors, creditors, employees and other stakeholders, including the banking regulators and supervisors, are addressed. The Board is responsible for strategic direction, management oversight and adequate control with the ultimate objective of promoting the success and long–term value of the Bank. The Board is also responsible for the overall framework of the risk governance, management, determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. Additionally, it is responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures as well as management of all risks related to the Group.

In order to effectively discharge this responsibility the Board is assisted by various Board Committees, namely Board Risk Committee (BRC), Audit & Compliance Committee (ACC), Credit & Investment Committee(CIC) and Nomination & Remuneration Committee (REMCO).

Management actively manages risk, primarily through the Risk Department with oversight by the Executive Committee (EXCO), Business Committee (BC), Assets & Liabilities Committee (ALCO), Credit Committee (CC), IT Steering Committee (ITSC), Information Security Risk Committee (ISRC), Compliance Committee (CCO), Investment Committee (IC) and Human Resources Committee (HRC).

32.2 Control Environment

a) Group Risk

Group Risk Department comprises credit, market, operational and IT risks units. Its responsibilities include the following:

- Developing a strategy, policy and framework for risk management such that these are aligned with business requirements;
- Providing support to the Group in implementation of the framework;
- Bringing together analysis of risk concentrations and sensitivities across the Group;
- Acting as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- Providing independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.2 Control Environment (continued)

b) Internal Audit

The role of the Internal Audit Department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature, and are generally performed at the specific request of the ACC or Management.

It is led by the Head of Internal Audit who reports to the ACC of the Board of Directors, with administrative reporting to the Chief Executive Officer.

To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel. The Internal Audit Charter empowers it to have full, free and effective access at all reasonable times to all records, documents and employees of the Group. Internal Audit has direct access to the Chairman of the ACC and Chief Executive Officer.

To determine whether the Internal Audit Function is functioning effectively, the ACC shall:

- Assess the appropriateness of the Internal Audit Charter once each year;
- Assess the adequacy of resources available, both in terms of skills and funding once each year; and
- Sponsor external assessments, at least once every three (3) years, by a qualified, independent reviewer from outside the Group.

c) Internal Control

Board of Directors and Executive Management are responsible for developing and maintaining the existence of a sound Internal Control System and procedures that meet international standards and fulfill the requirements of the Group's management and external regulatory bodies. The internal control system should be capable of ensuring the achievement of the following:

- Accuracy and integrity of financial and operational statements issued by the Group;
- Effectiveness and efficiency of the Group's operational activities;
- Effectiveness of measures and procedures set to safeguard the Group's assets and properties; and
- Compatibility with laws, legislations and regulations in force as well as policies pertinent to internal operational procedures.

Executive management constantly monitors and assesses the efficiency and effectiveness of internal control procedures and their ability to achieve stated objectives and their furtherance and enhancement.

The Internal Control Department reports to the Chief Executive Officer (CEO). The functions and responsibilities of the Internal Control Department include but not limited to:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enabling the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Monitoring of operational activities and overseeing operational controls being exercised to ensure that these are timely and effective.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.2 Control Environment (continued)

d) Compliance and Fraud prevention

The process of monitoring compliance is an independent task which aims at ensuring that the Group is in compliance with all applicable laws, regulations, instructions, directives, codes of conduct and sound banking standards and practices as issued by relevant authorities.

The Board of Directors takes necessary measures to further the values of integrity and sound professional conduct within the Group promoting a culture of compliance in letter and spirit of applicable laws, regulations, instructions and standards.

The mission and role of compliance, AML and Fraud prevention department is to:

- ensuring compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- ensuring senior management is fully informed of significant compliance issues and plans for resolution;
- contributing to a “no surprise” compliance culture by educating and communicating compliance awareness throughout the Group;
- aligning annual compliance plans with business strategies and goals; and
- meet regulatory expectations and FATCA requirements.

<u>Fraud prevention</u>

The Bank has a dedicated Fraud Prevention and Investigation Unit that assists in identification, detection, and verification of potential or actual fraud incidents including quantification and recoupment of any losses sustained as a result of such incident. The purpose is to manage susceptibility of bank’s assets and processes to fraud risk with a view to reducing it and to raise the level of fraud awareness amongst employees and other stakeholders.

e) Whistle Blowing

A set of arrangements has been designed to enable employees to confidentially report concerns about any potential violations, enabling the investigation and follow up of such concerns independently and discreetly through the whistle blowing policy. Such arrangements are supervised by the ACC and in coordination with the executive management.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.3 Disclosure policy

The Group has laid down the disclosure policy to ensure compliance with all regulations and guidelines issued by the lead regulator Central Bank of the UAE (CBUAE), International Financial Reporting Standards (IFRS), Securities and Commodities Authority (SCA) and Dubai Financial Market (DFM).

The following are the key features of the Group's disclosure policy concerning disclosure of financial information:

a) Materiality thresholds

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement, and / or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down qualitative materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

b) Control framework

In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalization and review of financial disclosures. In addition, the consolidated financial statements are subject to a quarterly review and year end audit procedures by the Group's external auditors.

c) Frequency and medium of disclosure

Interim financial results are disclosed on a quarterly basis while complete consolidated financial statements complying with the requirements of IFRS, Basel II Pillar 3, relevant laws of the U.A.E, SCA requirement and other guidelines from CBUAE is made on annual basis. Disclosures of material non-public financial information are made as follows:

- Uploading quarterly reviewed and annual audited consolidated financial statements along with Directors' report to DFM and SCA websites;
- Posting quarterly and annual consolidated financial statements on the Group's website;
- Publishing of annual audited consolidated financial statements in both Arabic and English newspapers after the approval of the Central Bank of UAE and the Shareholders at the Annual General Meeting (AGM);
- Management discussion and analysis in Arabic and English newspapers in a manner that ensures wide dissemination; and
- Publication of the annual report which includes audited consolidated financial statements.
- Investor's pack is presented on bank's website on a quarterly and annual basis.

33. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

The Group has exposure to the following primary risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training, management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit & Compliance Committee (ACC) is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's ACC is assisted in these functions by Internal Audit, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group BRC as well as ACC.

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

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the Group's loans and advances, Islamic financing, amounts due from banks and investment in debt securities. For reporting purpose credit risk on Islamic financing is reported as component of credit risk on loans and advances. For risk management purposes, credit risk arising on trading investments is managed independently.

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(i) Management of credit risk

Credit Committee (CC) manages the credit risk of the Group by continuous review and update of credit limits, credit policies, process and frame-work, the approval of specific exposures and work out proposals, constant revaluation of the loans portfolio and the sufficiency of provisions thereof.

(ii) Impaired loans and advances, Islamic financing and investment in debt securities

Individually impaired loans and advances, Islamic financing and investment in debt securities are financial assets for which the Group determines that there is objective evidence of impairment and it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

The Group Credit Risk Rating Methodology, which has been internally developed based on actual historical data, is in line with the requirements set out in the Basel II Accord and has a 14-grades frame-work, whereby:

- The first 9 grades are assigned to non-defaulting borrowers / performing accounts;
- Grade 10 reflects irregular accounts; and
- The last 4 grades are for defaulting borrowers / non- performing accounts.

33. FINANCIAL RISK MANAGEMENT (continued)

b)Credit risk (continued)

(ii) Impaired loans and advances, Islamic financing and investment in debt securities (continued)

Grades	Asset quality	Risk significance
1	Standard	Good, top performing assets and debt securities with External Credit Assessment (ECA) of “A” and better than “A” and unrated bonds internally assessed as top performing.
2-5	Standard	Good, above average performing assets
6-9	Standard	Good, below average performing assets
10	Standard	Watch-list loans / performing
11- 12	Substandard	Substandard - Interest Suspended / Specific provision starts / non-performing
13	Doubtful	Doubtful of recovery / non-performing
14	Loss	Loss (fully provided for, or written off) / non-performing

The methodology provides a multi-dimensional approach to the Group’s Credit Risk Rating, where credit is assessed and rated on two dimensions, as follows:

- 1st Dimension: which assesses / rates the borrower’s probability of Default (PD); and
- 2nd Dimension: which assesses / rates the facility and the Loss-Given Default (LGD).

Both dimensions create a Credit-Risk Rating Grid/Matrix which plays a key role in pricing, approval, and credit monitoring. In order to achieve this, the Group has priced facilities using Risk Adjusted Return on Capital (RAROC).

(iii) Past due but not impaired loans

These are the loans where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

(iv) Loans with renegotiated terms

Loans with renegotiated terms include loans, the repayment plan of which have been rescheduled with no other concession in amount or rate of interest. Rescheduling activity is designed to manage customer relationships. Following rescheduling, an overdue account will normally be reset from delinquent to current status. Rescheduling is done based on indications or criteria which, in the opinion of management, evidence the probability that payment will continue. Management continuously monitors the progress on renegotiated loans to ensure compliance with the terms at all times.

(v) Restructured performing loans / under restructuring

Restructured performing loans or loans under restructuring represent loans, whose terms have been restructured or are under restructuring and involve a concession in rate of interest. These loans are not delinquent; however appropriate impairment loss is recognised on such loans.

At 31 December 2015 restructured performing loans and loans under restructuring amount to AED 631.8 million (2014: AED 691 million).

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(vi) Exposure to credit risk

The Group measures its exposure to credit risk by reference to gross carrying amount of financial assets less interest suspended and impairment losses, if any.

		Loans and receivables		Due from banks		Debt securities	
		2015 AED'000	2014 AED '000	**2015 AED'000**	2014 AED '000	**2015 AED'000**	2014 AED '000
i.	**Neither past due nor impaired**						
	Grades 1: good, top performing assets	**10,429,779**	8,259,255	**2,591,717**	1,872,327	**3,120,482**	2,595,551
	Grade 2-9: good, performing assets	**26,964,631**	19,761,922	-	-	**3,088,969**	2,560,751
	Grade 10: watch- list loans /performing	**1,362,633**	3,041,573	-	-	-	-
	Carrying amount	**38,757,043**	31,062,750	**2,591,717**	1,872,327	**6,209,451**	5,156,302
ii.	**Past due but not impaired**						
	In Grade 1 to 10						
	Less than 30 days	**5,235**	260,968	-	-	-	-
	30 – 60 days	**8,098**	48,190	-	-	-	-
	60 – 90 days	**2,798**	26,717	-	-	-	-
	Over 90 days	**29,089**	218,131	-	-	-	-
	Carrying amount	**45,220**	554,006	-	-	-	-
iii.	**Individually impaired**						
	Grade 11 & 12: Substandard	**1,142,155**	886,539	-	-	-	-
	Grade 13: Doubtful	**1,132,527**	1,798,661	-	-	-	-
	Grade 14: Loss	**342,423**	225,475	-	-	-	-
	Carrying amount	**2,617,105**	2,910,675	-	-	-	-
iv.	**Impaired on portfolio basis – Retail**						
	Grade 11 & 12: Substandard	**68,094**	73,708	-	-	-	-
	Grade 13: Doubtful	**208,115**	243,944	-	-	-	-
	Grade 14: Loss	**1,869**	13,360	-	-	-	-
	Carrying amount	**278,078**	331,012	-	-	-	-
	Total carrying amount	**41,697,446**	34,858,443	**2,591,717**	1,872,327	**6,209,451**	5,156,302
	Specific provision for impairment	**(1,009,465)**	(1,576,137)	-	-	-	-
	Portfolio provision for impairment related to (iv) above	**(98,450)**	(76,072)	-	-	-	-
	Specific provision for individually Restructured loans and under restructuring /OLEM	**(507,978)**	(361,871)	-	-	-	-
	Interest in suspense	**(381,943)**	(497,642)	-	-	-	-
	Collective provision for impairment related to (i) and (ii) above	**(678,789)**	(525,219)	-	-	-	-
	Total provisions for impairment	**(2,676,625)**	(3,036,941)	-	-	-	-
	Carrying amount net of impairment	**39,020,821**	31,821,502	**2,591,717**	1,872,327	**6,209,451**	5,156,302

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(vii) Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss component that relate to individually significant exposures, and a collective loan loss allowance established for group of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. Assets carried at fair value through profit or loss is not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

The Group monitors concentrations of its impaired loans by sector and by geographic location. An analysis of concentrations of impaired (excluding individually impaired and restructured loans / under restructuring) loans by sector is shown below:

2015	**Impaired loans**	**Collateral**	**Specific provision and interest in suspense**
	AED'000	**AED'000**	**AED'000**
Commercial and Business:-			
Manufacturing	**56,711**	**25,514**	**46,039**
Construction	**16,026**	**-**	**7,633**
Real estate	**294,073**	**248,974**	**116,399**
Trade	**944,064**	**333,284**	**697,679**
Services	**1,030,291**	**95,467**	**315,293**
Business and investment	**164,713**	**16,481**	**86,993**
Total commercial and business	**2,505,878**	**719,720**	**1,270,036**
Banks and financial institutions	**-**	**-**	**-**
Government and public sector entities	**-**	**-**	**-**
Personal - mortgage	**270,912**	**285,280**	**131,351**
Personal - loans	**106,956**	**-**	**77,141**
Others	**11,437**	**1,764**	**11,330**
Total carrying amount	**2,895,183**	**1,006,764**	**1,489,858**

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(vii) Allowances for impairment (continued)

2014	**Impaired loans**	**Collateral**	**Specific provision and interest in suspense**
	AED'000	**AED'000**	**AED'000**
Commercial and Business:-			
Manufacturing	57,905	22,853	49,219
Construction	1,249	34,900	419
Real estate	703,892	260,730	446,688
Trade	1,205,171	374,077	929,175
Services	694,182	76,386	402,151
Business and investment	184,964	13,623	117,990
Total commercial and business	2,847,363	782,569	1,945,642
Banks and financial institutions	3,842	-	1,936
Government and public sector entities	-	-	-
Personal – mortgage	271,379	238,151	111,807
Personal – loans	86,340	-	58,486
Others	32,763	4,160	31,980
Total carrying amount	3,241,687	1,024,880	2,149,851

In addition to the specific provision, the Group held AED 678.8 million (31 December 2014: AED 525.2 million) as collective provisions.

All impaired loans are located in one geographic area i.e. the United Arab Emirates. The value of collateral is restricted to lower of loan exposure or realisable value of the collateral.

The carrying value unfunded exposures pertaining to impaired loans amounted to AED 112.1 million (31 December 2014: AED 93.2 million).

Set out below is an analysis of the gross and net (of provisions for impairment) amounts of individually impaired assets by risk grade;

	Gross	**Specific Provision and interest in suspense**	**Net**
31 December 2015	**AED'000**	**AED'000**	**AED'000**
11&12: Substandard	**1,142,155**	**291,690**	**850,465**
Grade 13: Doubtful	**1,132,527**	**748,117**	**384,410**
Grade 14: Loss	**342,423**	**259,599**	**82,824**
Total	**2,617,105**	**1,299,406**	**1,317,699**
31 December 2014			
11&12: Substandard (a & b)	886,539	382,977	503,562
Grade 13:Doubtful	1,798,661	1,453,084	345,577
Grade 14: Loss	225,475	224,178	1,297
Total	2,910,675	2,060,239	850,436

In addition to specific provisions and interest in suspense the Group also holds collaterals against the non-performing loans. Realisable value of these collaterals is taken into account to calculate provision requirement.

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(viii) Write - off policy

The Group writes off a loan / investment in debt security (and any related allowances for impairment) when the Group Credit Committee determines that the loan / security is uncollectible. This determination is reached after considering information such as the significant deterioration in the borrower's/issuer's financial position such that the borrower / issuer can no longer pay the obligation, or proceeds from collateral will not be sufficient to pay back the entire exposure or all possible efforts of collecting the amounts have been exhausted.

For smaller balances of standardized loans, write off decisions are generally based on a product-specific past due status.

(ix) Collateral

The Group holds collateral against loans and advances in the form of cash, guarantees, mortgages and liens over properties or other securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored and updated on a periodic basis. Generally, collateral is not held against debt securities and amounts due from banks, and no such collateral was held at 31 December 2015 or 2014.

Analysis of collateral by type is presented in the following table:

	2015	2014
	AED'000	AED'000
Pledged deposits	**1,762,628**	1,776,112
Properties	**12,502,324**	12,082,269
Hypothecation & mortgages	**1,331,345**	1,017,023
Pledge of shares	**844,874**	689,687
Government and bank guarantees	**115,823**	255,919
Bills discounted-cheques	**657,547**	716,090
Others	**170,651**	295,423
Total collaterals	**17,385,192**	16,832,523

The above represents collateral value restricted to the lower of loan balance or collateral value.

33.FINANCIAL RISK MANAGEMENT (continued)

b)Credit risk (continued)

(x) Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in 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. The following tables set out the concentration of credit risk by sector, geography and currency.

Concentration of credit risk by sector for 2015

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity Securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
Concentration by sector								
Commercial and Business:-								
Manufacturing	**1,439,175**	**-**	**-**	**-**	**-**	**1,439,175**	**434,304**	**353,446**
Construction	**780,744**	**-**	**-**	**-**	**-**	**780,744**	**1,080,241**	**300,614**
Real estate	**3,863,885**	**-**	**-**	**-**	**-**	**3,863,885**	**639,769**	**878,333**
Trade	**7,145,610**	**-**	**-**	**-**	**-**	**7,145,610**	**4,299,972**	**3,375,498**
Services	**5,752,871**	**-**	**-**	**84,425**	**-**	**5,837,296**	**3,556,464**	**3,941,851**
Business and investment	**10,341,490**	**-**	**261,125**	**7,922**	**-**	**10,610,537**	**2,640,092**	**25,881**
Total commercial and Business	**29,323,775**	**-**	**261,125**	**92,347**	**-**	**29,677,247**	**12,650,842**	**8,875,623**
Banks and financial institutions	**731,261**	**2,591,717**	**3,200,628**	**312,135**	**82,029**	**6,917,857**	**886,256**	**628,966**
Government and Public sector entities	**5,460,304**	**-**	**2,747,698**	**-**	**6,137,668**	**14,345,670**	**2,964,165**	**209,173**
Personal-mortgage	**2,296,432**	**-**	**-**	**-**	**-**	**2,296,432**	**28,772**	**-**
Personal-schematic	**2,664,982**	**-**	**-**	**-**	**-**	**2,664,895**	**329,511**	**19,106**
Others	**1,220,692**	**-**	**-**	**9,096**	**1,538,506**	**2,768,294**	**363,059**	**1,078,282**
Total carrying amount	**41,697,446**	**2,591,717**	**6,209,451**	**413,578**	**7,758,203**	**58,670,395**	**17,222,605**	**10,811,150**

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

Concentration of credit risk by sector for 2014

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
Concentration by sector								
Commercial and Business:-								
Manufacturing	1,155,848	-	18,493	-	-	1,174,341	421,036	442,122
Construction	1,537,185	-	-	-	-	1,537,185	964,215	429,407
Real estate	3,102,825	-	-	-	-	3,102,825	905,280	597,544
Trade	7,537,430	-	-	-	-	7,537,430	2,673,005	2,952,063
Services	4,815,229	-	-	76,683	-	4,891,912	2,497,019	3,510,178
Business and investment	8,227,527	-	159,529	10,139	-	8,397,195	1,526,262	64,088
Total commercial and Business	26,376,044	-	178,022	86,822	-	26,640,888	8,986,817	7,995,402
Banks and financial institutions	336,787	1,872,327	2,887,772	335,867	84,590	5,517,343	298,026	471,692
Government and public sector entities	3,614,228	-	2,090,508	-	5,004,463	10,709,199	1,779,481	88,395
Personal-mortgage	1,664,463	-	-	-	-	1,664,463	277,859	-
Personal-schematic	2,233,956	-	-	-	-	2,233,956	281,860	22,264
Others	632,965	-	-	9,007	1,435,330	2,077,302	276,883	266,146
Total carrying amount	34,858,443	1,872,327	5,156,302	431,696	6,524,383	48,843,151	11,900,926	8,843,899

Acceptances are part of unfunded exposures; in line with the Basel II, Pillar 3 disclosure requirements.

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

Concentration of credit risk by geographic location:

2015	**Loans and advances and Islamic financing**	**Due from banks**	**Debt securities**	**Equity securities and fund of funds**	**Cash, balances with Central bank and other assets**	**Total**	**Undrawn commitments**	**Contingent liabilities and acceptances**
Concentration by location	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
UAE	**41,144,705**	**1,217,948**	**4,255,371**	**149,871**	**7,758,203**	**54,526,098**	**17,056,790**	**10,202,408**
GCC	**342,041**	**623,551**	**1,229,889**	**21,127**	**-**	**2,216,608**	**41,763**	**178,348**
Middle East	**1,049**	**38,276**	**-**	**-**	**-**	**39,325**	**1,594**	**61,375**
Europe	**83,982**	**411,377**	**225,398**	**242,580**	**-**	**963,337**	**107,467**	**286,657**
USA	**-**	**36,156**	**59,250**	**-**	**-**	**95,406**	**-**	**70,854**
Asia	**19,749**	**206,717**	**395,424**	**-**	**-**	**621,890**	**14,991**	**11,508**
Others	**105,920**	**57,692**	**44,119**	**-**	**-**	**207,731**	**-**	**-**
Total carrying amount	**41,697,446**	**2,591,717**	**6,209,451**	**413,578**	**7,758,203**	**58,670,395**	**17,222,605**	**10,811,150**

2014	**Loans and advances and Islamic financing**	**Due from banks**	**Debt securities**	**Equity securities and fund of funds**	**Cash, balances with Central bank and other assets**	**Total**	**Undrawn commitments**	**Contingent liabilities and acceptances**
Concentration by location	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
UAE	34,667,794	889,718	3,412,915	173,346	6,524,383	45,668,156	11,828,164	8,362,580
GCC	5,225	553,772	1,142,522	36,815	-	1,738,334	31,406	74,030
Middle East	-	521	-	-	-	521	-	8,579
Europe	78,999	248,634	244,274	220,542	-	792,449	14,674	329,013
USA	-	62,488	58,170	993	-	121,651	-	49,415
Asia	1,102	116,241	298,421	-	-	415,764	26,682	20,282
Others	105,323	953	-	-		106,276	-	-
Total carrying amount	34,858,443	1,872,327	5,156,302	431,696	6,524,383	48,843,151	11,900,926	8,843,899

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

Concentration of credit risk by currency:

2015	**Loans and advances and Islamic financing AED'000**	**Due from banks AED'000**	**Debt securities AED'000**	**Equity securities and fund of funds AED'000**	**Cash, balances with Central Bank and other assets AED'000**	**Total AED'000**	**Undrawn commitments AED'000**	**Contingent liabilities and acceptances AED'000**
Concentration by currency								
AED	**35,263,071**	**670,021**	**30,016**	**149,413**	**7,428,834**	**43,541,355**	**14,965,007**	**9,122,744**
Other currencies	**6,434,375**	**1,921,696**	**6,179,435**	**264,165**	**329,369**	**15,129,040**	**2,257,598**	**1,688,406**
Total carrying amount	**41,697,446**	**2,591,717**	**6,209,451**	**413,578**	**7,758,203**	**58,670,395**	**17,222,605**	**10,811,150**

2014	**Loans and advances and Islamic financing AED'000**	**Due from banks AED'000**	**Debt securities AED'000**	**Equity securities and fund of funds AED'000**	**Cash, balances with Central Bank and other assets AED'000**	**Total AED'000**	**Undrawn commitments AED'000**	**Contingent liabilities and acceptances AED'000**
Concentration by currency								
AED	31,492,665	550,020	31,210	172,891	6,207,028	38,453,814	10,901,866	8,163,014
Other currencies	3,365,778	1,322,307	5,125,092	258,805	317,355	10,389,337	999,060	680,885
Total carrying amount	34,858,443	1,872,327	5,156,302	431,696	6,524,383	48,843,151	11,900,926	8,843,899

Majority of assets denominated in other currencies are in USD to which AED is pegged.

33. FINANCIAL RISK MANAGEMENT (continued)

c) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are rare and are monitored and quantified as part of the Group's Internal Capital Adequacy Assessment Procedures (ICAAP) framework and Operational Risk Management.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Group Risk Management Department.

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at contracted maturities and rates and the inability to liquidate assets at reasonable prices and in the required timeframe and the inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

(i) Management of liquidity risk

Liquidity risk is managed by the Treasury and ALM department in line with the regulatory, internal policies and guidelines. The Group's approach to manage liquidity risk is to ensure that it has adequate funding from diversified sources at all times to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage of the Group's reputation.

Funds are raised using a broad range of instruments including customers' deposits, medium term borrowings, money market instruments, subordinated debts and capital. The treasury and ALM department monitors the liquidity profile of financial assets and liabilities and the projected cash flows arising from existing and future business. Treasury maintains a portfolio of short-term liquid assets and inter-bank placements to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and abnormal market conditions.

The Group's liquidity policy is approved by the Board of Directors and reviewed annually. Adherence to the policies is monitored by the Risk Management Department and the ALCO.

The Group's liquidity management process, as carried out within the Group and monitored by Group's treasury, includes:

- Day to day funding is managed by monitoring future cash flows to ensure that requirements can be met - these include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money market to facilitate funding activities;
- Maintenance of a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

33. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

(i)Management of liquidity risk (continued)

- Managing balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Repurchase arrangements with various Banks which allow it to repo its fixed income investments to meet any liquidity needs that may arise.

(ii) Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the advances to stable resources ratio (regulatory ratio) which is 81.9% as at 31 December 2015 *(2014: 82.6%)*. In addition, the Group also uses the following ratios/information on a continuous basis for measuring liquidity risk:

- Liquid assets to total assets ratio;
- Net loans to deposits ratio (LDR);
- Third party liabilities maturing within one month to total third party liabilities;
- Customers' deposits maturing within one month to total customers' deposits;
- Deposits' concentration; and
- Basel III ratios (including LCR, NSFR, etc.) are also monitored internally and shared with the Board on quarterly basis.

The following table summarizes the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements. These do not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the residual period at the reporting date to the contractual maturity date.

The maturity profile of the assets and liabilities at 31 December 2015 was as follows:

	Total	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No Fixed Maturity
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	**6,668,065**	**5,737,668**	**-**	**400,000**	**-**	**-**	**530,397**
Due from banks	**2,591,717**	**2,201,996**	**150,976**	**55,095**	**183,650**	**-**	**-**
Loans and advances and Islamic financing	**39,020,821**	**5,800,632**	**2,247,312**	**1,658,659**	**13,063,738**	**16,250,480**	**-**
Investment securities	**6,623,029**	**30,947**	**196,567**	**808,196**	**3,811,563**	**1,362,178**	**413,578**
Investment in associate	**82,029**	**-**	**-**	**-**	**-**	**-**	**82,029**
Investment properties	**333,761**	**-**	**-**	**-**	**-**	**-**	**333,761**
Property and equipment	**332,317**	**-**	**-**	**-**	**-**	**-**	**332,317**
Other assets	**2,212,149**	**621,441**	**326,042**	**1,264,666**	**-**	**-**	**-**
Total assets	**57,863,888**	**14,392,684**	**2,920,897**	**4,186,616**	**17,058,951**	**17,612,658**	**1,692,082**
Liabilities and equity							
Due to banks	**1,111,462**	**735,987**	**173,460**	**202,015**	**-**	**-**	**-**
Customers' deposits and Islamic customers' deposits	**40,474,776**	**23,316,579**	**7,686,238**	**9,017,977**	**453,982**	**-**	**-**
Notes and medium term borrowings	**5,492,694**	**-**	**-**	**1,648,767**	**3,843,927**	**-**	**-**
Other liabilities	**2,556,152**	**898,667**	**326,042**	**1,264,666**	**-**	**-**	**66,777**
Total liabilities	**49,635,084**	**24,951,233**	**8,185,740**	**12,133,425**	**4,297,909**	**-**	**66,777**
Gap representing equity	**8,228,804**	**(10,558,549)**	**(5,264,843)**	**(7,946,809)**	**12,761,042**	**17,612,658**	**1,625,305**

33. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

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

	Total	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No Fixed Maturity
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	5,450,145	4,904,463	-	100,000	-	-	445,682
Due from banks	1,872,327	1,565,312	-	110,190	196,825	-	-
Loans and advances and Islamic financing	31,821,502	5,258,980	1,528,142	2,019,475	10,692,873	12,322,032	-
Investment securities	5,587,998	27,607	18,515	367,250	3,533,132	1,209,798	431,696
Investment in associate	84,590	-	-	-	-	-	84,590
Investment properties	249,991	-	-	-	-	-	249,991
Property and equipment	323,852	-	-	-	-	-	323,852
Other assets	1,488,150	529,972	402,360	465,818	-	-	90,000
Total assets	46,878,555	12,286,334	1,949,017	3,062,733	14,422,830	13,531,830	1,625,811
Liabilities and equity							
Due to banks	1,097,926	1,047,926	-	50,000	-	-	-
Customers' deposits and Islamic customers' deposits	32,161,339	20,416,363	6,204,118	5,395,131	145,727	-	-
Notes and medium term borrowings	4,021,998	-	-	-	4,021,998	-	-
Other liabilities	1,786,879	892,405	402,360	427,119	-	-	64,995
Total liabilities	39,068,142	22,356,694	6,606,478	5,872,250	4,167,725	-	64,995
Gap representing equity	7,810,413	(10,070,360)	(4,657,461)	(2,809,517)	10,255,105	13,531,830	1,560,816

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

	Total	Less than 1 month	from 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
2015	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Contingent liabilities	**8,939,552**	**1,871,689**	**837,997**	**2,736,030**	**443,629**	**3,050,207**
Credit commitments	**17,222,605**	**5,003,277**	**2,801,240**	**2,969,760**	**2,530,864**	**3,917,464**
Total	**26,162,157**	**6,874,966**	**3,639,237**	**5,705,790**	**2,974,493**	**6,967,671**
2014						
Contingent liabilities	7,747,877	1,939,093	1,401,554	1,810,045	681,756	1,915,429
Credit commitments	11,900,926	4,910,371	280,499	2,498,083	570,461	3,641,512
Total	19,648,803	6,849,464	1,682,053	4,308,128	1,252,217	5,556,941

33. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

The tables below show undiscounted cash flows on the Group's financial liabilities:

2015	Total AED'000	Less than 1 Month AED'000	From 1 to 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 years AED'000
Due to banks	**1,111,857**	**591,738**	**317,231**	**202,888**	**-**
Customers' deposits and Islamic customers' deposits	**40,682,845**	**23,343,932**	**7,732,719**	**9,148,226**	**457,968**
Notes and medium term borrowings	**6,011,794**	**3,192**	**7,701**	**1,806,138**	**4,194,763**
Other liabilities	**2,318,019**	**727,311**	**326,042**	**1,264,666**	**-**
Total liabilities	**50,124,515**	**24,666,173**	**8,383,693**	**12,421,918**	**4,652,731**

2014	Total AED'000	Less than 1 Month AED'000	From 1 to 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 years AED'000
Due to banks	1,098,251	1,047,926	-	50,325	-
Customers' deposits and Islamic customers' deposits	32,286,280	20,490,936	6,226,979	5,418,965	149,400
Notes and medium term borrowings	4,340,338	3,227	22,727	89,428	4,224,956
Other liabilities	1,618,887	86,148	1,066,921	465,818	-
Total liabilities	39,343,756	21,628,237	7,316,627	6,024,536	4,374,356

33. FINANCIAL RISK MANAGEMENT (continued)

e) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads, will affect the Group's income and / or value of a financial instrument. The Group manages its market risk in order to achieve optimum returns while maintaining market risk exposures within set risk appetite.

(i) Management of market risk

The Board of Directors sets the risk appetite pertaining to market Risk which translates into risk limits which are closely monitored by Group Risk Management, reported daily to senior management and discussed monthly by the ALCO.

The Group separates its exposure to market risk between trading and non-trading portfolios with overall responsibility vested in the ALCO. The Group Risk Management department is responsible for the development of detailed risk management policies and for the day-to-day implementation, subject to review and approval by the ALCO.

(ii)Exposure to interest rate risk – non trading portfolio

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages the risk principally through monitoring interest rate gaps, matching the re-pricing profile of assets and liabilities and by having pre-approved limits for repricing bands. The Group Risk Management Department monitors compliance with these limits on a daily basis and is responsible for reporting breaches if any, to senior management. ALCO review reports on a monthly basis.

In addition the Group also assesses the impact of defined movement in interest yield curves on its net interest income and regulatory capital. The following is the impact of interest rate movement on net interest income and regulatory capital:

	2015		2014	
	Net interest income		Net interest income	
	50 b.p.	**100 b.p.**	50 b.p.	100 b.p.
	AED'000	**AED'000**	AED'000	AED'000
Upward Parallel Shift	**18,489**	**60,171**	9,241	30,934
Downward Parallel Shift.	**(10,010)**	**(20,020)**	(9,464)	(18,928)

Interest rate movement is not expected to have material impact on the regulatory capital.

33. FINANCIAL RISK MANAGEMENT (continued)

e) Market risks (continued)

A summary of the Group's interest rate sensitivity position based on contractual re-pricing arrangements or maturity dates, whichever dates are earlier is as follows:

31 December 2015	**Non-interest bearing**	**Less than 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**Over 1 Year**	**Total**
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	**3,668,065**	**2,600,000**	**-**	**400,000**	**-**	**6,668,065**
Due from banks	**105,858**	**2,484,867**	**992**	**-**	**-**	**2,591,717**
Loans and advances and Islamic financing	**2,953,197**	**24,470,140**	**1,952,116**	**1,763,123**	**10,558,870**	**41,697,446**
Provisions	**(2,676,625)**	**-**	**-**	**-**	**-**	**(2,676,625)**
Investment securities	**413,578**	**576,696**	**237,108**	**575,281**	**4,820,366**	**6,623,029**
Investment in associate	**82,029**	**-**	**-**	**-**	**-**	**82,029**
Investment properties	**333,761**	**-**	**-**	**-**	**-**	**333,761**
Property and equipment	**332,317**	**-**	**-**	**-**	**-**	**332,317**
Other assets	**2,212,149**	**-**	**-**	**-**	**-**	**2,212,149**
Total assets	**7,424,329**	**30,131,703**	**2,190,216**	**2,738,404**	**15,379,236**	**57,863,888**
Liabilities						
Due to banks	**216,975**	**894,487**	**-**	**-**	**-**	**1,111,462**
Customers' deposits and Islamic customers' deposits	**13,525,710**	**14,256,133**	**5,567,689**	**3,625,076**	**3,500,168**	**40,474,776**
Notes and medium term borrowings	**-**	**1,635,552**	**-**	**-**	**3,857,142**	**5,492,694**
Other liabilities	**2,556,152**	**-**	**-**	**-**	**-**	**2,556,152**
Total liabilities	**16,298,837**	**16,786,172**	**5,567,689**	**3,625,076**	**7,357,310**	**49,635,084**
Interest rate sensitivity gap	**(8,874,508)**	**13,345,531**	**(3,377,473)**	**(886,672)**	**8,021,926**	**8,228,804**
Cumulative interest rate sensitivity gap	**(8,874,508)**	**4,471,023**	**1,093,550**	**206,878**	**8,228,804**	
Represented by equity						**8,228,804**

31 December 2014	**Non-interest bearing**	**Less than 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**Over 1 Year**	**Total**
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	2,950,145	2,400,000	100,000	-	-	5,450,145
Due from banks	187,897	1,377,415	-	110,190	196,825	1,872,327
Loans and advances and Islamic financing	3,203,676	21,396,656	1,442,074	1,238,646	7,577,391	34,858,443
Provisions	(3,036,941)	-	-	-	-	(3,036,941)
Investment securities	431,696	427,696	179,762	301,378	4,247,466	5,587,998
Investment in associate	84,590	-	-	-	-	84,590
Investment properties	249,991	-	-	-	-	249,991
Property and equipment	323,852	-	-	-	--	323,852
Other assets	1,488,150	-	-	-	-	1,488,150
Total assets	5,883,056	25,601,767	1,721,836	1,650,214	12,021,682	46,878,555
Liabilities						
Due to banks	560,999	486,927	-	50,000	-	1,097,926
Customers' deposits and Islamic customers' deposits	14,040,818	9,914,131	2,777,326	2,549,554	2,879,510	32,161,339
Notes and medium term borrowings	-	1,647,704	-	-	2,374,294	4,021,998
Other liabilities	1,786,879	-	-	-	-	1,786,879
Total liabilities	16,388,696	12,048,762	2,777,326	2,599,554	5,253,804	39,068,142
Interest rate sensitivity gap	(10,505,640)	13,553,005	(1,055,490)	(949,340)	6,767,878	7,810,413
Cumulative interest rate sensitivity gap	(10,505,640)	3,047,365	1,991,875	1,042,535	7,810,413	
Represented by equity						7,810,413

33. FINANCIAL RISK MANAGEMENT (continued)

e) Market risks (continued)

Overall interest rate risk positions are managed by the Treasury and ALM Department, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's activities. Interest rate risks are assumed by ALM from the businesses through fund transfer pricing process.

f) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

	Net spot Position	**Forward Position**	**Net exposure 2015**	Net exposure 2014
Currency		**AED'000**		
US Dollar	**4,623,669**	**(3,176,431)**	**1,447,328**	1,015,054
GCC currencies	**10,568**	**325,519**	**336,087**	466,052
Great Britain Pound	**(458)**	**108**	**(350)**	(5,795)
Japanese Yen	**23,991**	**(24,036)**	**(45)**	32
Euro	**115,429**	**(121,229)**	**(5,800)**	278
Others	**(440)**	**3,122**	**2,682**	1,702

A summary of capital requirement for market risk under standardized approach of Basel II is set out below:

	2015 AED'000	2014 AED'000
Equity position risk	**-**	423
Foreign currency risk	**743**	6,063
Interest rate risk	**1,270**	2,891
	2,013	9,377

33. FINANCIAL RISK MANAGEMENT (continued)

g) Equity risk

The Group has defined in its trading book policy the instruments which the Group is allowed to trade. A limited trading activity takes place in the equity market, monitored by Risk Management and in line with investment committee (IC) recommendations. Daily stop loss limits as well as portfolio notional limits are monitored daily and reported to senior management. In addition, the Group has classified an equity portfolio as available for sale investments.

Analysis of equity portfolio:

	2015	2014
Publicly traded (quoted):	**AED'000**	AED'000
Equity	**149,413**	159,011
Privately held (unquoted):		
Funds of funds investments	**264,165**	272,685
Total	**413,578**	431,696

Analysis of gains or (losses) on equity investments:

	2015	2014
	AED'000	AED'000
Realised gains on sale	**26,448**	27,286
Unrealised (loss) / gains in P/L	**(46)**	505
Unrealised (loss) in OCI	**(11,298)**	(8,010)

The revaluation reserve on equity and funds of funds portfolio as at 31 December 2015 amounting to AED 25,705 thousand *(2014: AED* 37,003 *thousand)* was considered as Tier II capital.

Analysis of capital requirement for equity investments under standardized approach of Basel II:

		2015			2014	
	AFS AED'000	**Held for trading AED'000**	**Total AED'000**	AFS AED'000	Held for trading AED'000	Total AED'000
Equity	**12,173**	**-**	**12,173**	18,870	212	19,082
Funds of funds investment	**37,456**	**-**	**37,456**	32,722	-	32,722
Total	**49,629**	**-**	**49,629**	51,592	212	51,804

h) Operational risk

Operational risk is defined by Basel as "The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this includes legal risk but excludes strategic and reputation risks".

The Group's objective is to manage operational risk, so as to balance the avoidance of financial losses and damage to the Group's reputation, with overall cost effectiveness and to avoid control procedures that restrict initiative, innovativeness and creativity.

The primary responsibility for the overseeing the establishment of sound operational risk management framework and monitoring the operational risk profile of the Group vests with the senior management of the Group, The Bank has set up a cross functional committee named Operational Risk Management Committee (ORMC) of senior management personnel to formalize this responsibility and closely monitor key Operational Risks on a pan bank basis to support timely execution of action plans.

33. FINANCIAL RISK MANAGEMENT (continued)

h) Operational risk (continued)

Accountability and responsibility is further assigned to the heads of individual units, departments or branches. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions to eliminate scenarios involving any conflict of interest;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures pertaining to all activities of the bank;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action to avoid its future recurrence;
- Development of contingency plans to ensure continuity of business under all circumstances;
- Training and professional development of employees at all levels so as to increase their awareness of the subject;
- Ethical and business standards (through the Group's approved and functional Code of Ethics);
- Risk mitigation, including insurance wherever this is effective; and
- Whistle Blowing and Incident Reporting Policies are channels available to all staff for reporting of any loss events or other wrongdoings.

The Group has an approved framework for end-to-end management of its operational risks, which involves the active participation of the employees at all levels. The Operational Risk Management plan places an equal emphasis on the identification, assessment, control and reporting of operational risks and on quantification of potential risks and resultant losses therein, if any. Reports are produced covering Operational Risk dashboards, heat-maps, loss matrices, Operational Risk register and loss databases.

The Group has in place an operational risk management system to collate operational risk information in an automated environment; this has enabled the bank to build operational risk databases to support migration to more complex approaches for computation of operational risk capital in the future.

Group Risk Management continued its efforts towards increasing bank-wide awareness about the ORM concept, by organizing workshops, seminars and training courses on the subject, for our employees, throughout the year. On an ongoing basis, Risk and Control Self Assessments (RCSA) are being carried out by all branches and units to identify the operational risks and assess the effectiveness of existing controls, so as to plan any remedial actions (if required) and minimize recurrence of loss events.

Moreover, the Group conducts an assessment of disaster recovery and business continuity position, as well as detailed system risk assessments of all new/upgraded IT systems and assessment of Operational Risk elements in any new products to be launched or procedures to be implemented. Compliance with policies and procedures is supported by periodic reviews undertaken by Internal Audit. A review of the insurance coverage available to the bank is undertaken to maintain oversight of adequacy of insurance as necessitated by the Basel guidelines. Regular updates are provided to the senior management and the Board Risk Committee (BRC) to support their mandate to maintain adequate oversight of the banks operational risk framework and status of operational risks across all areas of the bank.

34. CAPITAL MANAGEMENT

34.1 Regulatory capital

The Group's regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and optimize returns for shareholders;
- Comply with regulatory capital requirements set by the Central Bank of the UAE.

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

The Group also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its integrated ICAAP Framework. Risks such as Interest Rate Risk in the Banking Book, Concentration Risk, Strategic Risk, Legal and Compliance Risk, Stress Risk, Insurance Risk and Reputational Risk are all part of the ICAAP.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis. RAROC calculations are also built into the Credit Appraisal System.

The Group's regulatory capital adequacy ratio is set by the Central Bank of UAE ('the Central Bank'). The Group has complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Group's management of capital during the year. The capital adequacy ratio should be a minimum of 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8% as mandated by the Central Bank.

The Group's regulatory capital is analyzed into two tiers:

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

34. CAPITAL MANAGEMENT (continued)

34.2 Capital resources and adequacy

The table below summarizes the composition of regulatory capital and capital adequacy ratio calculation as per Basel II, of the Group:

	31 December 2015 AED'000	31 December 2014 AED'000
Core tier 1 capital		
Share capital	**2,802,734**	2,242,187
Legal reserve	**1,401,367**	1,380,495
General reserve	**1,227,718**	1,121,095
Retained earnings	**2,193,094**	2,387,103
Tier 1 capital	**7,624,913**	7,130,880
Upper tier 2 capital		
Fair value reserve	**(6,294)**	31,414
Collective provisions (up to allowable limit)	**564,797**	525,219
Tier 2 capital	**558,503**	556,633
Total capital base	**8,183,416**	7,687,513
Risk weighted assets (RWA) Pillar 1		
Credit risk	**45,183,729**	38,614,847
Market risk	**16,780**	78,145
Operational risk	**4,140,976**	3,832,044
Risk weighted assets	**49,341,485**	42,525,036
Tier 1 ratio	**15.45%**	16.77%
Capital adequacy ratio (Pillar) 1	**16.59%**	18.08%

Capital adequacy ratio calculation is after netting off proposed distribution from capital base.

34. CAPITAL MANAGEMENT (continued)

34.2 Capital resources and adequacy (continued)

Risk weighted capital requirement

The Group has adopted the standardized approach for credit risk and market risk and basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk weighted capital requirement for credit, market and operational risk are given below:

(i)Risk weights for credit risk

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the Central Bank of UAE Basel II Capital Adequacy Framework covering the standardized approach for credit risk. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

Funded exposure

Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable external credit assessment institutions (ECAIs), except that, for all GCC sovereigns a 0% weight has been applied.

Claims on non- commercial public sector entities (PSEs)

Domestic currency claims on GCC non-commercial PSEs were treated as claims on GCC sovereign if their Central Bank or monetary authority treats them as such. Foreign currency claims on GCC PSE were treated one grade less favourable than its sovereign i.e. 20% risk weight were applied. Claims on other foreign non-commercial PSEs were treated one grade less favorable than its sovereign.

Claims on multilateral development banks (MDBs)

All MDBs are risk weighted in accordance with each bank's credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency were assigned more favorable risk weighting.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Claims on corporate and government related entities portfolio

Claims on corporate and government related entities (entities with greater than 50% government ownership) are risk weighted in accordance with ratings from acceptable ECAIs. Risk weight of 100% is applied on claims on unrated corporate and government related entities.

Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), if they meet the criteria mentioned in the Central Bank of UAE BASEL-II guidelines.

34. CAPITAL MANAGEMENT (continued)

34.2 Capital resources and adequacy (continued)

(i)Risk weights for credit risk (continued)

Claims secured by residential property

A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million to a single borrower and the claim was secured by residential property with LTV of up to 85%. Other claims secured on residential property were risk weighted 100%.

Claims secured by commercial property

100% risk weight was applied on claims secured by commercial property.

Past due exposures

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows :

- 150% risk weight when specific provisions are less than 20% of the outstanding amount of loan;
- 100% risk weight when specific provisions are greater than 20% of the outstanding amount of loan.

Equity portfolios

0% risk weight was applied on equity in trading book. Equity in banking book was risk weighted at 100%. The aggregate investments in insurance companies (including investment in associate held as per equity accounting) amounting to AED 91,877 thousand *(2014: AED 97,128 thousand)* have been risk weighted in accordance with Basel II.

Other exposures

These are risk weighted at 100%.

Unfunded exposure

For credit-related contingent items, the nominal value is converted to an exposure through the application of Credit Conversions Factors (CCF). The CCF is at 20%, 50% or 100% depending on the type of contingent item, and is used to convert off balance sheet notional amounts into an equivalent on balance sheet exposure.

Undrawn commitments to extend credit represent commitments that have not been drawn down or utilized at the reporting date. The nominal amount provides the calculation base to which the CCF is applied for calculating the exposure. CCF range between 20% and 50% for commitment with original maturity of up to one year and over one year respectively and 0% CCF is applicable for commitments which can be unconditionally cancelled at any time.

34. CAPITAL MANAGEMENT (continued)
34.2 Capital resources and adequacy (continued)

(i)Risk weights for credit risk (continued)

Asset classes	**On & off balance sheet**	**Credit risk mitigation (CRM)**		**On & off balance sheet**	**Risk weighted assets**
31 December 2015	**Gross outstanding**	**Exposure before CRM**	**CRM**	**Net exposure after credit conversion factors (CCF)**	
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Claims on sovereigns	**7,293,658**	**7,293,658**	**-**	**7,225,959**	**56,028**
Claims on non-commercial Public Sector Enterprises (PSEs)	**1,356,580**	**1,356,580**	**-**	**805,630**	**-**
Claims on banks	**7,820,830**	**7,820,830**	**-**	**6,963,031**	**2,806,128**
Claims on corporates and government related enterprises (GRE)	**56,103,638**	**55,618,505**	**3,539,532**	**33,954,034**	**33,010,411**
Claims included in the regulatory retail portfolio	**5,215,910**	**5,215,910**	**102,595**	**4,013,007**	**3,216,795**
Claims secured by residential property	**1,729,444**	**1,729,444**	**-**	**1,729,444**	**786,797**
Claims secured by commercial real estate	**2,351,454**	**2,351,454**	**-**	**2,351,376**	**2,351,376**
Past due loans	**3,038,484**	**1,525,782**	**33,776**	**1,440,863**	**1,455,409**
Other assets	**2,052,533**	**2,051,082**	**-**	**2,051,082**	**1,500,785**
TOTAL CLAIMS	**86,962,531**	**84,963,245**	**3,675,903**	**60,534,426**	**45,183,729**
TOTAL CREDIT RISK					**45,183,729**

Asset classes	On & off balance sheet	Credit risk mitigation (CRM)		On & off balance sheet	Risk weighted assets
31 December 2014	Gross outstanding	Exposure before CRM	CRM	Net exposure after credit conversion factors (CCF)	
	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on sovereigns	5,595,298	5,595,298	-	5,473,307	1,102
Claims on non-commercial Public Sector Enterprises (PSEs)	1,221,850	1,221,850	-	670,900	-
Claims on banks	5,750,729	5,750,729	-	5,354,394	2,135,445
Claims on corporates and government related enterprises (GRE)	42,837,401	42,577,358	2,262,986	28,135,570	27,893,289
Claims included in the regulatory retail portfolio	4,585,981	4,585,981	118,224	2,987,607	2,446,695
Claims secured by residential property	1,482,482	1,482,482	-	1,482,482	671,283
Claims secured by commercial real estate	2,680,184	2,680,184	-	2,679,763	2,679,763
Past due loans	3,552,898	1,301,219	61,273	1,197,711	1,306,777
Other assets	1,979,223	1,955,546	-	1,955,546	1,480,493
TOTAL CLAIMS	69,686,046	67,150,647	2,442,483	49,937,280	38,614,847
TOTAL CREDIT RISK					38,614,847

34. CAPITAL MANAGEMENT (continued)

34.2 Capital resources and adequacy (continued)

(i)Risk weights for credit risk (continued)

The Group uses the following external credit assessment institutions (ECAIs): Standard & Poor's', Moody's and Fitch. The external rating of ECAI is mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings. The Group also uses various Credit Risk Mitigation techniques (CRM). The total exposure to Banks before CRM includes AED 7,549 million *(2014: AED 5,563 million)* rated exposure.

Risk weighted assets as per standardized approach is set out below:

	2015		2014	
	Exposure AED'000	**Risk weighted assets AED'000**	Exposure AED'000	Risk weighted assets AED'000
Exposure prior to CRM	**64,210,329**	**48,845,843**	52,379,763	41,057,330
Less: Eligible financial collateral	**3,675,903**	**3,662,114**	2,442,483	2,442,483
Net exposure after CRM	**60,534,426**	**45,183,729**	49,937,280	38,614,847

(ii)Risk weights for market risk

Capital requirement for market risk is calculated using standardized approach. The capital requirement for market risk is analyzed into capital requirement for interest rate risk, equity risk, foreign exchange risk and option risk.

(iii)Risk weight for operation risk

Capital requirement for operation risk is calculated using basic indicator approach. This Capital charge was computed using basic indicator approach by multiplying the three years average gross income by a predefined beta factor.

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these consolidated financial statements, the effect of which are considered immaterial.