Consolidated financial statements

31 December 2015

The audited Consolidated financial statements are subject to adoption by Shareholders at the Annual General Meeting.

Consolidated financial statements

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Independent Auditor's Report

The Shareholders
National Bank of Abu Dhabi PJSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Bank of Abu Dhabi PJSC and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group'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 Group'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.

KPMG

Report on Other Legal and Regulatory Requirements

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

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

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

iii) the Group has maintained proper books of account;

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

v) investments in shares are included in note 8 and 12 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2015;

vi) note 40 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

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

viii) note 34 to the consolidated financial statements discloses the social contributions made during the year.

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

KPMG

KPMG
27 January 2016
Munther Dajani
Registered Auditor Number: 268
Abu Dhabi, United Arab Emirates

Consolidated statement of financial position

As at 31 December

	Note	2015 AED'000	2014 AED'000
Assets			
Cash and balances with central banks	7	76,382,109	55,452,341
Investments at fair value through profit or loss	8	12,291,138	15,425,662
Due from banks and financial institutions	9	10,891,768	11,134,262
Reverse repurchase agreements	10	13,330,186	15,844,377
Derivative financial instruments	39	10,574,091	7,422,828
Loans and advances	11	205,913,553	194,279,352
Non-trading investments	12	63,794,151	67,493,122
Other assets	13	10,550,483	6,370,981
Investment properties	14	190,546	177,533
Property and equipment	15	2,645,782	2,498,254
Total assets		406,563,807	376,098,712
Liabilities			
Due to banks and financial institutions	16	42,808,215	36,679,504
Repurchase agreements	17	30,550,652	13,875,917
Euro commercial paper	18	8,720,597	5,484,176
Derivative financial instruments	39	12,852,358	10,953,124
Customer accounts and other deposits	19	233,814,558	243,184,652
Term borrowings	20	17,740,968	14,998,716
Other liabilities	21	15,582,508	11,442,600
		362,069,856	336,618,689
Subordinated notes	22	1,275,298	1,516,641
Total liabilities		363,345,154	338,135,330
Equity			
Share capital	23	5,198,640	4,723,172
Share premium	25	265,245	245,473
Statutory and special reserves	23	5,209,722	4,736,112
Other reserves	23	18,628,226	17,387,121
Tier 1 capital notes	24	6,754,750	4,000,000
Share option scheme	25	190,232	151,427
Convertible notes - equity component	20	108,265	108,265
Retained earnings		6,863,573	6,611,812
Total equity		43,218,653	37,963,382
Total liabilities and equity		406,563,807	376,098,712

Nasser Ahmed Khalifa Alsowaidi
Chairman

Alex Thursby
Group Chief Executive

James Burdett
Group Chief Financial Officer

The notes 1 to 45 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 2 and 3.

Consolidated statement of profit or loss

For the year ended 31 December

	Note	2015 AED'000	2014 AED'000
Interest income	26	**8,965,129**	8,634,612
Interest expense	27	**(2,021,044)**	(1,935,649)
Net interest income		**6,944,085**	6,698,963
Income from Islamic financing contracts	28	**385,625**	336,892
Depositors' share of profits	29	**(22,632)**	(17,837)
Net income from Islamic financing contracts		**362,993**	319,055
Net interest and Islamic financing income		**7,307,078**	7,018,018
Fee and commission income		**2,994,548**	3,002,520
Fee and commission expense		**(888,306)**	(691,928)
Net fee and commission income	30	**2,106,242**	2,310,592
Net foreign exchange gain	31	**817,587**	196,085
Net gain on investments and derivatives	32	**254,189**	764,402
Other operating income	33	**70,754**	125,620
		1,142,530	1,086,107
Operating income		**10,555,850**	10,414,717
General, administration and other operating expenses	34	**(4,082,919)**	(3,696,033)
Profit before net impairment charge and taxation		**6,472,931**	6,718,684
Net impairment charge	35	**(942,971)**	(868,127)
Profit before taxation		**5,529,960**	5,850,557
Overseas income tax expense	36	**(298,143)**	(271,688)
Net profit for the year		**5,231,817**	5,578,869
Basic earnings per share (AED)	42	**0.97**	1.04
Diluted earnings per share (AED)	42	**0.95**	1.02

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Consolidated statement of other comprehensive income

For the year ended 31 December

	Note	2015 AED'000	2014 AED'000
Net profit for the year		**5,231,817**	5,578,869
Other comprehensive income			
Items that are or may subsequently be reclassified to consolidated statement of profit or loss			
Exchange difference on translation of foreign operations		**(20,736)**	(22,730)
Cash flow hedges:			
Effective portion of cash flow hedges	23	**(38,237)**	(42,584)
Fair value reserve:			
Net change in fair value during the year	23	**17,013**	380,315
Net cumulative amount transferred to profit or loss	23	**(635,645)**	(835,852)
Items that will not subsequently be reclassified to consolidated statement of profit or loss			
Re-measurement of defined benefit obligations		**(5,033)**	(7,707)
Other comprehensive income for the year		**(682,638)**	(528,558)
Total comprehensive income for the year		**4,549,179**	5,050,311

The notes 1 to 45 are an integral part of these consolidated financial statements.
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Consolidated statement of changes in equity

For the year ended 31 December

	Share capital AED'000	Share Premium AED'000	Statutory reserve AED'000	Special reserve AED'000	General reserve AED'000	Tier 1 capital notes AED'000	Share option scheme AED'000	Fair value reserve AED'000	Foreign currency translation reserve AED'000	Convertible notes - equity component AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2014	**4,280,470**	**143,608**	**2,152,778**	**2,152,778**	**15,202,544**	**4,000,000**	**107,682**	**823,053**	**(89,413)**	**108,265**	**5,789,626**	**34,671,391**
Total comprehensive income for the year	-	-	-	-	-	-	-	(498,121)	(22,730)	-	5,571,162	**5,050,311**
Transactions with owners of the Group												
Zakat	-	-	-	-	-	-	-	-	-	-	(18,077)	**(18,077)**
Share options exercised	14,490	101,865	-	-	-	-	-	-	-	-	-	**116,355**
Treasury shares adjustment	(2,344)	-	-	-	2,344	-	-	-	-	-	-	**-**
Bonus shares issued *(note 23)*	430,556	-	-	-	(430,556)	-	-	-	-			**-**
Dividends paid for 2014 *(note 23)*	-	-	-	-	-	-	-	-	-	-	(1,712,848)	**(1,712,848)**
Transfer to general reserve *(note 23)*	-	-	-	-	2,400,000	-	-	-	-	-	(2,400,000)	**-**
Options granted to staff *(note 25)*	-	-	-	-	-	-	43,745	-	-	-	-	**43,745**
Payment on Tier 1 capital notes *(note 24)*	-	-	-	-	-	-	-	-	-	-	(187,495)	**(187,495)**
Transfer to statutory / special reserve *(note 23)*	-	-	215,278	215,278	-	-	-	-	-	-	(430,556)	**-**
Balance at 31 December 2014	**4,723,172**	**245,473**	**2,368,056**	**2,368,056**	**17,174,332**	**4,000,000**	**151,427**	**324,932**	**(112,143)**	**108,265**	**6,611,812**	**37,963,382**
Total comprehensive income for the year	-	-	-	-	-	-	-	(656,869)	(20,736)	-	5,226,784	**4,549,179**
Transactions with owners of the Group												
Zakat	-	-	-	-	-	-	-	-	-	-	(10,255)	**(10,255)**
Share options exercised	2,976	19,772	-	-	-	-	-	-	-	-	-	**22,748**
Treasury shares adjustment	(1,119)	-	-	-	1,119	-	-	-	-	-	-	**-**
Bonus shares issued *(note 23)*	473,611	-	-	-	(473,611)	-	-	-	-		-	**-**
Dividends paid for 2014 *(note 23)*	-	-	-	-	-	-	-	-	-	-	(1,889,971)	**(1,889,971)**
Transfer to general reserve *(note 23)*	-	-	-	-	2,400,000	-	-	-	-	-	(2,400,000)	**-**
Options granted to staff *(note 25)*	-	-	-	-	-	-	38,805	-	-	-	-	**38,805**
Issuance of Tier 1 capital notes (note 24)	-	-	-	-	-	2,754,750	-	-	-	-	-	**2,754,750**
Costs on issue of Tier 1 capital notes	-	-	-	-	(8,798)	-	-	-	-	-	-	**(8,798)**
Payment on Tier 1 capital notes *(note 24)*	-	-	-	-	-	-	-	-	-	-	(201,187)	**(201,187)**
Transfer to statutory / special reserve *(note 23)*	-	-	236,805	236,805	-	-	-	-	-	-	(473,610)	**-**
Balance at 31 December 2015	**5,198,640**	**265,245**	**2,604,861**	**2,604,861**	**19,093,042**	**6,754,750**	**190,232**	**(331,937)**	**(132,879)**	**108,265**	**6,863,573**	**43,218,653**

The notes 1 to 45 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 2 and 3.

Consolidated statement of cash flows

For the year ended 31 December

	Note	2015 AED'000	2014 AED'000
Cash flows from operating activities			
Profit before taxation		**5,529,960**	5,850,557
Adjustments for:			
Depreciation	34	**230,959**	223,024
Accreted interest		**82,756**	52,762
Gain on sale of non-trading investments	32	**(635,645)**	(835,852)
Loss on buy back of subordinated notes	22	**148**	-
Gain on sale of investment properties	33	**-**	(56,353)
Net impairment charges	35	**1,363,412**	1,348,655
Foreign currency translation adjustment		**(462,750)**	(394,009)
Share option scheme		**38,805**	43,745
		6,147,645	6,232,529
Change in investments at fair value through profit or loss		**3,134,513**	(12,779,769)
Change in due from central banks, banks and financial institutions		**124,732**	6,215,625
Change in reverse repurchase agreements		**2,514,191**	3,087,822
Change in loans and advances		**(13,004,150)**	(11,970,294)
Change in other assets		**(4,168,689)**	(1,436,820)
Change in due to banks and financial institutions		**6,128,711**	919,122
Change in repurchase agreements		**16,674,735**	12,523,796
Change in Customer accounts and other deposits		**(9,373,701)**	32,084,777
Change in derivative financial instruments		**(810,147)**	2,377,937
Change in other liabilities		**4,111,163**	3,636,828
		11,479,003	40,891,553
Overseas income tax paid, net of recoveries		**(295,499)**	(252,399)
Net cash from operating activities		**11,183,504**	40,639,154
Cash flows from investing activities			
Purchase of non-trading investments		**(51,186,794)**	(75,911,467)
Proceeds from sale / maturity of non-trading investments		**54,902,778**	59,644,718
Proceeds from sale of investment properties		**-**	165,785
Purchase of property and equipment, net of disposals		**(395,800)**	(279,210)
Net cash from / (used in) investing activities		**3,320,184**	(16,380,174)
Cash flows from financing activities			
Proceeds from issue of shares under share option scheme	25	**22,748**	116,355
Net movement of Euro commercial paper		**3,236,421**	(1,267,839)
Issue of term borrowings		**5,798,757**	1,330,441
Repayment of term borrowings		**(3,279,464)**	(4,896,791)
Net proceeds from issue of Tier 1 Capital Notes		**2,745,952**	-
Buy back of subordinated notes		**(124,938)**	-
Dividends paid	23	**(1,889,971)**	(1,712,848)
Payment on Tier 1 capital notes	24	**(201,187)**	(187,495)
Net cash from / (used in) financing activities		**6,308,318**	(6,618,177)
Net increase in cash and cash equivalents		**20,812,006**	17,640,803
Cash and cash equivalents at 1 January		**54,126,926**	36,486,123
Cash and cash equivalents at 31 December	37	**74,938,932**	54,126,926

The notes 1 to 45 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 2 and 3.

Notes to the consolidated financial statements

1 Legal status and principal activities

National Bank of Abu Dhabi PJSC (the "Bank") was established in Abu Dhabi in 1968 with limited liability and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law No. 8 of 1984 (as amended) relating to Commercial Companies.

Its registered office address is P. O. Box 4, Abu Dhabi, United Arab Emirates. The consolidated financial statements as at and for the year ended 31 December 2015 comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group is primarily engaged in corporate, retail, private and investment banking activities, management services, Islamic banking activities; and carries out its operations through its local and overseas branches, subsidiaries and representative offices located in United Arab Emirates, Bahrain, Egypt, France, Oman, Kuwait, Brazil, Cayman Islands, Sudan, Libya, the United Kingdom, Switzerland, Hong Kong, India, Jordan, Lebanon, Malaysia, China and the United States of America.

The Group's Islamic banking activities are conducted in accordance with Islamic Sharia'a laws issued by the Sharia'a Supervisory Board.

The Bank is listed on the Abu Dhabi Securities Exchange (Ticker: NBAD). The parent company of the Bank is the Abu Dhabi Investment Council, an entity owned by the Government of the Emirate of Abu Dhabi.

These consolidated financial statements were authorised for issue by the Board of Directors on 27 January 2016.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared on an ongoing basis in accordance with the International Financial Reporting Standards (IFRSs) (which comprises accounting standards issued by international Accounting Standards Board (IASB) as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC)) and the requirements of applicable laws in the UAE.

On 1 April 2015, a new UAE Federal Law No 2 for Commercial Companies ("UAE Companies Law of 2015") was issued with effective date 1 July 2015. As per the transitional provisions of the new law, companies are to ensure compliance by 30 June 2016. The Bank is in the process of adopting the new federal law and will be fully compliant before the transitional provisions deadline.

(b) Basis of measurement

These consolidated financial statements are prepared under the historical cost basis except for the following:

- investments at fair value through profit or loss are measured at fair value;
- derivative financial instruments are measured at fair value;
- non-trading investments classified as available-for-sale are measured at fair value;
- recognised assets and liabilities designated as hedged items in qualifying hedge relationships are adjusted for changes in fair value attributable to the risk being hedged; and
- non-financial assets acquired in settlement of loans and advances are measured at the lower of their fair value less costs to sell and the carrying amount of the loan and advances.

(c) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Bank's functional currency. Items included in the financial statements of each of the Bank's overseas subsidiaries and branches are measured using the currency of the primary economic environment in which they operate. Except as indicated, information presented in AED has been rounded to the nearest thousand.

2 Basis of preparation *(continued)*

(d) Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these consolidated financial statements are described in note 5.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities except for the new standards and interpretations that became applicable and were adopted during the year.

New standards and interpretations adopted
During the year new standards, amendments to standards and interpretations have become effective for the period and have been applied in preparing these consolidated financial statements. These amendments are listed below:

(i) Annual Improvements to IFRSs 2010 - 2012 Cycle

IFRS 2 Share-based Payment
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions.

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.

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, including a brief description of operating segments that have been aggregated and the economic characteristics 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

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment is not applicable as the Group follows the cost model for property and equipment.

3 Significant accounting policies *(continued)*

New standards and interpretations adopted*(continued)*

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. This amendment is not relevant for the Group as it does not receive any management services from other entities.

(ii) Annual Improvements to IFRSs 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 3 Business Combinations
The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that, joint arrangements, not just joint ventures, are outside the scope of IFRS 3 and this scope exception applies only to the accounting in the financial statements of the joint arrangement itself. This amendment is not relevant for the Group and its subsidiaries.

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.

(iii) Amendments to IAS 19 Employee Benefits: clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

The Group does not have a material impact on adoption of these amendments.

(a) Basis of consolidation

IFRS 10 governs the basis for consolidation where it establishes a single control model that applies to all entities including special purpose entities or structured entities. The definition of control is such that an investor controls an investee when it is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

(a) the investor has power over an investee;
(b) the investor has exposure to, or rights, to variable returns from its involvement with the investee; and
(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

3 Significant accounting policies *(continued)*

(a) Basis of consolidation *(continued)*

(i) Subsidiaries

Subsidiaries are investees that controlled by the Group. The Group controls the investee if it meets the control criteria discussed in note 3(a). The Group reassesses whether it has control if, there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements of the Group comprise the Bank and its subsidiaries as listed below:

Legal Name	*Country of incorporation*	*Principal activities*	*Holding %* **2015**
NBAD Americas N.V. (*formerly Abu Dhabi International Bank N.V.)*	Curacao	Banking	100%
NBAD Securities LLC	United Arab Emirates	Brokerage	100%
Abu Dhabi National Leasing LLC	United Arab Emirates	Leasing	100%
Abu Dhabi National Properties PrJC	United Arab Emirates	Property Management	100%
NBAD Trust Company (Jersey) Limited[1]	Channel Islands	Fund Management	100%
NBAD Private Bank (Suisse) SA	Switzerland	Banking	100%
Abu Dhabi National Islamic Finance Pvt.JSC	United Arab Emirates	Islamic Finance	100%
Ample China Holdings Limited	Hong Kong	Leasing	100%
Abu Dhabi Brokerage Egypt	Egypt	Brokerage	96%
National Bank of Abu Dhabi Malaysia Berhad	Malaysia	Banking	100%
NBAD Investment Management (DIFC) Limited[1]	United Arab Emirates	Fund Management	100%
NBAD Employee Share Options Limited	United Arab Emirates	Shares and Securities	100%
SAS 10 Magellan	France	Leasing	100%
NBAD Global Multi-Strategy Fund[1]	Cayman Island	Fund Management	100%
National Bank of Abu Dhabi Representações Ltda	Brazil	Representative office	100%
NBAD Financial Markets (Cayman) Limited	Cayman Islands	Banking	100%

[1] *under liquidation*

(ii) Structured entities

A structured entity is established by the Group to perform a specific task. Structured entities are designed so that their activities are not governed by way of voting rights. In assessing whether the Group acts as a principal or has power over investees in which it has an interest, the Group considers factors such as the purpose and design of the investee, its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund. Whilst assessing control, the Group reviews all facts and circumstances to determine whether as a fund manager the Group is acting as agent or principal. If deemed to be a principal, the Group controls the fund and would consolidate them else as an agent the Group would account for them as investments in funds.

The Group's interest in investment funds which it manages is set out below:

Type of Structured Entity	**Nature and purpose**	**Interest held by the Group**
Investment Funds	Generate fees from managing assets on behalf of third-party investors	Investments in units issued by the fund amounting to AED 154,472 thousand *(31 December 2014: AED* 579,924 *thousand)*

3 Significant accounting policies *(continued)*

(a) Basis of consolidation *(continued)*

(iii) Joint Arrangements and Investments in Associates

An Associate is an investee 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 not control or joint control over those policies. Investment in associates are accounted under the equity method of accounting.

A joint arrangement is an arrangement of between the Group and other parties where the Group along with one or more parties has joint control by virtue of a contractual agreement. Joint arrangement may be a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to and record their respective share of the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement and thus are accounted under the equity method of accounting.

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value when control is lost.

(v) Transactions eliminated on consolidation

The carrying amount of the Bank's investment in each subsidiary and the equity of each subsidiary is eliminated on consolidation. All significant intra-group balances, and unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Financial assets and liabilities

(i) Recognition

The Group initially recognises loans and advances, Customer accounts and other deposits, debt securities and subordinated notes on the date that they are originated. All other financial assets and liabilities are initially recognised on the consolidated statement of financial position when, the Group becomes a party to the contractual provisions of the instrument. These are initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

All *regular way* purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty. *Regular way* purchases or sales of financial assets are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Classification

(a) Fair value through profit or loss

(i) Designation at fair value through profit or loss

The Group designates financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

(ii) Held for trading

Trading assets are those assets that the Group acquires for the purpose of selling in the near term, or holds as part of a portfolio that is managed together for short-term profit taking.

Fair value through profit or loss assets are not reclassified subsequent to their initial recognition.

3 Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(ii) Classification (continued)

(b) Loans and receivables

Loans and receivables includes cash and balances with central banks, due from bank and financial institutions, finance lease receivables, reverse repurchase agreements and loans and advances. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity.

(d) Available-for-sale

The Group has non-derivative financial assets designated as available-for-sale when these are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available for sale assets are intended to be held for an indefinite period of time and may be sold in future to manage liquidity requirements or in response to market fluctuation in interest rates or pricing of the financial assets.

(e) Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

(iii) De-recognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such transactions, the transferred assets are not derecognised from the consolidated statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include repurchase transactions.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(iv) Offsetting

As per IAS 32, financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intend 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 IFRS, or for gains and losses arising from a group of similar transactions.

3 Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(v) 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 rate / 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 instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

(vi) Fair value measurement

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

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

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

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

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position or paid to transfer a net short position for a particular risk exposure.

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

3 Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment

An assessment is made at each reporting date and periodically during the year to determine whether there is any objective evidence that financial assets not carried at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or an 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 at both specific and collective levels. All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are required to be collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

In assessing collective impairment the Group uses the higher of 1.5% of credit risk weighted asset computed as per Central Bank of UAE guidelines and a statistical modelling which incorporates historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the original effective interest rate. Impairment losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition costs and current fair values out of other comprehensive income to the consolidated statement of profit or loss. When a subsequent event causes the amount of impairment loss on available-for-sale debt security to decrease, the impairment loss is reversed through the consolidated statement of profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognised in other comprehensive income.

Impairment losses on an unquoted equity instruments that are carried at cost because their fair value cannot be reliably measured, are measured as the difference between the carrying amount of the financial assets and the present values of estimated future cash flows discounted at the current market rate of return for similar financial assets. Such impairment losses shall not be reversed.

3 Significant accounting policies *(continued)*

(c) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with central banks and due from banks and financial institutions with original maturities of less than three months, which are subject to insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are non-derivative financial assets stated at amortised cost in the consolidated statement of financial position.

(d) Investments at fair value through profit or loss

These are financial assets classified as held for trading or designated as such upon initial recognition.

Held for trading financial assets includes debt securities, treasury bills, equity securities, short positions in securities and funds. They have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. In addition, derivatives that are not effective accounting hedging instruments are carried at fair value through profit or loss.

Financial assets designated at fair value through profit or loss applies to groups of financial assets that are managed, and their performances are evaluated, on a fair value basis in accordance with a documented risk management or investment strategy.

These financial assets are initially recognised and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of profit or loss. All related realised and unrealised gains or losses are included in net gain on investments.

(e) Due from banks and financial institutions

These are non-derivative financial assets that are stated at amortised cost, less any allowance for impairment.

(f) Reverse repurchase agreements

Assets purchased with a simultaneous commitment to resell at a specified future date are not recognised. The amount paid to the counterparty under these agreements is shown as reverse repurchase agreements in the consolidated statement of financial position. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

(g) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances include loans and advances originated by the Bank which are not classified as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are sold or written off. These are initially measured at fair value (being the transaction price at inception) plus incremental direct transaction costs and subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges for the risk being hedged, net of interest suspended and provisions for impairment.

3 Significant accounting policies *(continued)*

(g) Loans and advances *(continued)*

Loans and advances include direct finance provided to customers such as overdrafts, credit cards, term loans, finance lease receivables and commercial bills.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances. In determining whether an arrangement is a lease, the Group ascertains the substance of the arrangement and assesses whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the assets.

(h) Islamic financing and investing contracts

The Bank engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Ijara, Murabaha, Mudaraba and Wakala. These are accounted in accordance with IAS 39 – Financial instrument: Recognition and Measurement.

(i) Definitions

Ijara
Ijara consists of Ijara muntahia bitamleek.

Ijara muntahia bitamleek is an agreement whereby the Group (the lessor) conveys to the customer (the lessee), in return for a specific rent, the right to use a specific asset for a specific period of time, against payment of fixed periodical and variable rental. Under this agreement, the Group purchases or constructs the asset and rents it to the customer. The contract specifies the leasing party and the amount and timing of rental payments and responsibilities of both parties during the term of the lease. The customer provides the Group with an undertaking to settle the rental amount as per the agreed schedule.

The Group retains the ownership of the assets throughout the entire lease term. At the end of the lease term, the Group sells the leased asset to the customer at a nominal value based on a sale undertaking by the Group.

Murabaha
An agreement whereby the Group sells to a customer a commodity and /or other assets, which the Group has purchased and acquired, based on promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Mudaraba
A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible for all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

Wakala
An agreement whereby the Group provides a certain sum of money to an agent (Wakkil) who invests it in Sharia's compliant transactions according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested).

3 Significant accounting policies *(continued)*

(h) Islamic financing and investing contracts *(continued)*

(ii) Revenue recognition

Ijara
Income from Ijara is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Murabaha
Income from Murabaha is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Mudaraba
Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the consolidated statement of profit or loss on their declaration by the Mudarib.

Wakala
Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(i) Non-trading investments

Included in non-trading investments are available-for-sale assets which are initially recognised at fair value plus incremental transaction costs directly attributable to the acquisition.

After initial recognition, these investments are re-measured at fair value. For investments which are not part of an effective hedge relationship, unrealised gains or losses are recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income, is included in the consolidated statement of profit or loss for the year. For investments which are part of an effective fair value hedge relationship, any unrealised gain or loss arising from a change in fair value is recognised directly in the consolidated statement of profit or loss to the extent of the changes in fair value being hedged.

Interest income is recognised on available-for-sale debt securities using the effective interest rate, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of debt investment securities are included in the calculation of their effective interest rates. Dividends on equity instruments are recognised in the statement of profit or loss when the right to receive payment has been established.

For the purpose of recognising foreign exchange gains and losses, an available-for-sale financial asset is treated as if it were carried at amortised cost in the foreign currency. Accordingly, for such a financial asset, exchange differences are recognised in the consolidated statement of profit or loss.

For unquoted equity investments where fair value cannot be reliably measured, these are carried at cost less provision for impairment in value. Upon de-recognition, the gain or loss on sale is recognised in the consolidated statement of profit or loss for the year.

Included in non-trading investments are held-to-maturity assets which are non-derivative assets with fixed or determinable payments and fixed maturity and that the Group has the positive intent and ability to hold them till maturity. These are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

3 Significant accounting policies *(continued)*

(i) Non-trading investments *(continued)*

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

(j) Investment properties

(i) Recognition and measurement

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost as per the cost model under IAS 40- Investment property. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When the use of a property changes such that it is reclassified as property and equipment, its original cost and the current carrying amount at the date of reclassification continue to be the cost and carrying amount of the asset for measurement and disclosures.

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 income or expenses on the investment properties are recognised in the consolidated statement of profit or loss in other operating income or other operating expense respectively.

(ii) Depreciation

Depreciation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of investment properties. The estimated useful lives of investment properties for the current period are as follows:

Buildings and villas	20 to 50 years

Depreciation methods, useful lives and residual values are reassessed at every reporting date.

(iii) Impairment

The carrying amounts are reviewed at each reporting date for indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in the consolidated statement of profit or loss to the extent that carrying values do not exceed the recoverable amounts.

3 Significant accounting policies *(continued)*

(k) Property and equipment

(i) Recognition and measurement

All items of property and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Capital projects in progress are initially recorded at cost and regularly tested for impairment and upon completion are transferred to the appropriate category of property and equipment and thereafter depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other operating income in the consolidated statement of profit or loss.

Subsequent expenditures are only capitalised when it is probable that the future economic benefits of such expenditures will flow to the Group. On-going expenses are charged to consolidated statement of profit or loss as incurred.

(ii) Depreciation

Depreciation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of all property and equipment. Freehold land and capital work in progress are not depreciated.

The estimated useful lives of assets for the current and comparative period are as follows:

Buildings and villas	20 to 50 years
Office furniture and equipment	1 to 5 years
Alterations to premises	10 years
Safes	10 to 20 years
Computer systems and equipment	3 to 7 years
Vehicles	3 years

Depreciation methods, useful lives and residual values are reassessed at every reporting date.

(iii) Capital work in progress

Capital work in progress assets are assets in the course of construction for production, supply or administrative purposes, are carried at cost, less any recognised impairment loss. Cost includes all direct cost attributable to design and construction of the property capitalised in accordance with Group's accounting policy. When the assets are ready for the intended use, the capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with the Group's policies.

(iv) Impairment

The carrying amounts are reviewed at each reporting date for indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in the consolidated statement of profit or loss to the extent that carrying values do not exceed the recoverable amounts.

3 Significant accounting policies *(continued)*

(l) Collateral pending sale

Real estate and other collaterals may be acquired as the result of settlement of certain loans and advances and are recorded as assets held for sale and reported in "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the consolidated statement of profit or loss. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the consolidated statement of profit or loss. The Group's collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Group operates.

(m) Due to banks and financial institutions, Customer accounts and other deposits and euro commercial paper

Due to banks and financial institutions, customer deposits and euro commercial paper are financial liabilities and are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method.

(n) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date are not derecognised. The liability to the counterparty for amounts received under these agreements is shown as repurchase agreements in the consolidated statement of financial position. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

(o) Term borrowings and subordinated notes

Term borrowings and subordinated notes include convertible notes that can be converted into share capital at the option of the holder, where the number of shares issued do not vary with changes in their fair value, are accounted for as compound financial instruments. The equity component of the convertible notes is calculated as the excess of issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option.

Term borrowings and subordinated notes without conversion option are financial liabilities and are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method and adjusted to the extent of fair value changes for the risks being hedged.

(p) Share option scheme

On the grant date fair value of options granted to staff is estimated and the cost is recognised as staff cost, with a corresponding increase in equity, over the period required for the staff to become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options for which the related service conditions are expected to be met; as such the amount ultimately recognised as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date. These shares may contribute to the calculation of dilutive EPS once they are deemed as potential ordinary shares.

3 Significant accounting policies *(continued)*

(q) Interest

Interest income and expense are recognised in the consolidated statement of profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the consolidated statement of profit or loss include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis.
- interest on available-for-sale investment securities on an effective interest rate basis.
- interest on held for trading securities and derivative financial instruments on an effective interest rate basis.

(r) Depositors' share of profit

Depositors' share of profit is amount accrued as expense on the funds accepted from banks and customers in the form of wakala and mudaraba deposits and recognised as expenses in the consolidated statement of profit or loss. The amounts are calculated in accordance with agreed terms and conditions of the wakala deposits and Sharia'a principles.

(s) Fee and commission

The Group earns fee and commission income from a diverse range of services provided to its customers. The basis of accounting treatment of fees and commission depends on the purposes for which the fees are collected and accordingly the revenue is recognised in consolidated statement of profit or loss. Fee and commission income is accounted for as follows:

- income earned from the provision of services is recognised as revenue as the services are provided;
- income earned on the execution of a significant act is recognised as revenue when the act is completed;
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in "Interest income".

Fee and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

(t) Zakat

Zakat represents islamic business zakat payable by the Group on behalf of its shareholders to comply with the principles of Sharia'a and is approved by the Sharia'a Supervisory Board. The Group's appointed Zakat Committee is mandated to recommend zakat distribution.

3 Significant accounting policies *(continued)*

(u) Net gain on investments and derivatives

Net gain on investments and derivatives comprises realised and unrealised gains and losses on investments at fair value through profit or loss and derivatives, realised gains and losses on non-trading investments and dividend income.

Net gain or loss on investment at fair value through profit or loss and derivatives includes net trading income and net income from investments designated at fair value. Net trading income comprises of all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading.

Non-trading investment includes available for sale and held to maturity instruments.

Gains and losses arising from changes in fair value of available for sale assets are recognised in the statement of other comprehensive income and recorded in fair value reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets which are recognised directly in the consolidated statement of profit or loss. Where the investment is sold or realised, the cumulative gain or loss previously recognised in equity under fair value reserve is reclassified to the consolidated statement of profit or loss.

Held to maturity investments that are not close to their maturity are not ordinarily sold. However when they are sold or realised, the gain or loss is recognised in the consolidated statement of profit or loss.

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

(v) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rates at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in consolidated statement of profit or loss.

(ii) Foreign operations

The activities of subsidiaries and branches based outside the UAE are not deemed an integral part of the head office operations, as they are financially and operationally independent of the head office. The assets and liabilities of the subsidiaries and overseas branches are translated into UAE Dirhams at rates of exchange at the reporting date. Income and expense items are translated at average rates, as appropriate. Exchange differences (including those on transactions which hedge such investments) arising from retranslating the opening net assets, are taken directly to foreign currency translation adjustment account in other comprehensive income.

3 Significant accounting policies *(continued)*

(w) Overseas income tax expense

Income tax expense is provided for in accordance with fiscal regulations of the respective countries in which the Group operates and is recognised in the consolidated statement of profit or loss. Income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

(x) Derivative financial instruments and hedging

Derivatives are initially recognised, and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of profit or loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative or using valuation techniques, mainly discounted cash flow models.

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument and, if so, the nature of the risk being hedged. All gains and losses from changes in fair value of derivatives held for trading are recognised in the consolidated statement of profit or loss. When derivatives are designated as hedges, the Group classifies them as either: (i) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (ii) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; (iii) hedge of net investment which are accounted similarly to a cash flow hedge. Hedge accounting is applied to derivatives designated as hedging instruments in a fair value or cash flow, provided the criteria are met.

Embedded derivatives
Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristic and risks of the embedded derivative are not closely related to the economic characteristics and risk of the host contract. Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship, and are presented separately from host contract in the consolidated statement of financial position.

3 Significant accounting policies *(continued)*

(x) Derivative financial instruments and hedging *(continued)*

Hedge accounting
It is the Group's policy to document, at the inception of a hedge, the relationship between hedging instruments and hedged items, as well as risk management objective and strategy. The policy also requires documentation of the assessment, at inception and on an on-going basis, of the effectiveness of the hedge.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, as to whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Fair value hedge
In relation to fair value hedges, any gain or loss from re-measuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated statement of profit or loss together with the changes in the fair value of the hedged item that are attributable to the hedged risk. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any adjustment up to that period to the hedged item for which effective interest rate method was used is amortised to the consolidated statement of profit or loss as a part of the recalculated effective interest rate of the then hedged item over its remaining life.

Cash flow hedge
In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised initially in other comprehensive income and transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the consolidated statement of profit or loss. Gains or losses, if any, relating to the ineffective portion, are recognised immediately in the consolidated statement of profit or loss. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated statement of profit or loss.

Net investments hedges
When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of the changes in the fair value of the hedging instrument is recognised in other comprehensive income in the translation reserve. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in the consolidated statement of profit or loss. The amount recognised under other comprehensive income is reclassified to statement of profit or loss on disposal of the foreign operation.

Other derivatives
All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting or are not designated as such are recognised immediately in the consolidated statement of profit or loss as a component of net gain on investments and derivatives or net foreign exchange gain.

(y) 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. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3 Significant accounting policies *(continued)*

(z) Employees' end of service benefit

Defined contribution plan
A defined contribution plan is a post - employment benefit plan under which an entity pays fixed contributions into a separate entity or to a government organisation and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated statement of profit or loss in the periods during which services are rendered by employees.

Pension and national insurance contributions for eligible employees are made by the Bank to Pensions and Benefits Fund in accordance with the applicable laws of country where such contributions are made.

Defined benefit plan
A defined benefit plan is a post - employment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past - service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high - quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. Net interest expense and other expenses related to defined benefit plans are recognised in Staff cost in consolidated statement of profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately to profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(aa) Directors' remuneration

Pursuant to Article 118 of the Commercial Companies Law No. 8 of 1984 and in accordance with the Bank's Articles of Association, Directors' shall be entitled for remuneration which shall not exceed 10 % of the net profits after deducting depreciation, reserves and distribution of dividends not less than 5% of capital to shareholders.

(ab) Fiduciary activities

Assets held in a fiduciary capacity are not treated as assets of the Group as they are only held in trust where the Group acts as a custodian on customers' behalf. The Group has no liability or obligations towards the customer on these assets held in trust . Accordingly, these assets are not included in these consolidated financial statements.

(ac) 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, which comprise convertible notes and share options granted to staff.

3 Significant accounting policies *(continued)*

(ad) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Certain financial guarantee contracts in the nature of credit default guarantees are not held for proprietary trading purposes and are treated as insurance contracts and accounted for under IFRS 4.

For other financial guarantee contracts, these are initially recognised at their fair value (which is the premium received on issuance). The received premium is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

(ae) 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. All operating segments' operating results are reviewed regularly by the Group's Chief Executive, being the chief operating decision maker, to make decisions about resources to be allocated to the segment and to assess its performance for which discrete financial information is available. Segment results that are reported to the Group Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(af) Lease payments

Payments made under operating leases are recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ag) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been issued that are applicable to the Group but are not yet effective for the year ended 31 December 2015, and have not been applied in preparing these consolidated financial statements:

IFRS 15 *Revenue from contracts with customer:* issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It replaces existing all revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC Customer loyalty Programmes.

IFRS 15 is effective for annual period beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing potential impact of this standard on its consolidated financial statements.

3 Significant accounting policies *(continued)*

(ag) New standards and interpretations not yet adopted *(continued)*

IAS 16 / 38 IAS 16 and IAS 38 clarifies that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

IFRS 9 IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

IFRS 9 is effective for annual period beginning on or after 1 January 2018. However, early application of IFRS 9 is permitted.

The Group has started the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

IAS 27 IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

<u>Annual Improvements 2012-2014 Cycle</u>

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

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

3 Significant accounting policies *(continued)*

(ag) New standards and interpretations not yet adopted *(continued)*

IFRS 7 The amendment clarifies that in a servicing contract an entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts must be done retrospectively. However, the required disclosures are required when the entity first applies the amendments.

In addition, the amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

IAS 1 The amendments to IAS 1 Presentation of Financial Statements clarify existing IAS 1 requirements. The amendments clarify:

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI.

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

4 Financial risk management

Introduction and overview

The Group is exposed to a variety of risks inherent in carrying out its business activities. Principal risks include credit, market (traded and non-traded interest rate and foreign currency related risks), liquidity and funding, capital, operational, and business continuity. The Group has institutionalized a risk management framework which seeks to effectively manage these risks.

This note presents information about the Group's exposure to each of the above risks, along with an overview of relevant frameworks, policies and processes for measuring and managing these risks.

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework and they are assisted by two board committees (Risk Management Committee and Audit Committee), and two management committees (Group Risk Committee ("GRC") and Group Assets and Liabilities Committee ("G-ALCO")).

- The Risk Management Committee (RMC), comprising of members from the Board, is responsible for recommending and setting the Group's risk strategy and policy guidelines, and subsequently monitoring adherence. RMC takes credit decisions above management's discretionary powers, defines risk limits within which the Group's management operates and also monitors the overall risks for the Group.

- The Audit Committee, a board level committee, exercises oversight to monitor compliance with regulatory guidelines and the Bank's internal policies and procedures.

The management committees are responsible for implementing the risk management framework. The major functions of the two management committees are given below:

- The GRC is accountable to the Board RMC in respect of all Risk Management facets within the Group. The primary function of the committee is to ensure that the Bank's policies and procedures incorporate sound risk management practices and that the same are implemented. It also reviews, and recommends to the Board, the risk appetite, risk limits, risk aspects of business strategy and planning, and approves risk policies & analytical models to ensure effective risk management.

- The G-ALCO is the driving force and key decision maker behind the structure and quality of the balance sheet. The G-ALCO is directly accountable to the Board RMC for ensuring that the risks within the Group Asset and Liability position are prudently managed by way of strong Bank policy and procedures and an appropriate risk framework. The G-ALCO must be constantly aware of and actively manage these risks and their potential impact on the Banks business and strategic objectives.

The Group manages risk using three lines of defence comprising of business units, control units and Internal Audit. Business units, as the first line of defence, identify and manage risk in their day-to-day activities by ensuring that activities are within the Group's risk appetite and are in compliance with all relevant internal policies and processes. Risk Group (comprising head office risk and risk functions embedded in business divisions) and Legal & Compliance division, as the second line of defence, establishes risk controls comprising of policies and processes while also providing oversight and independent challenge to the first line of defence. The Group Chief Risk Officer ("GCRO") has a direct reporting line to Board RMC to ensure the independence of Risk Group from business. Internal audit, as the third line of defence, provides assurance to management and the Board of the effectiveness of risk management practices employed by the first two lines of defence. The Group Chief Audit Officer has a direct reporting line to the Board Audit Committee.

4 Financial risk management *(continued)*

(a) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's loans and advances, due from banks and financial institutions, reverse repurchase agreements and non-trading debt investments, derivative financial instruments and certain other assets.

For risk management purposes, credit risk arising on trading investments is managed independently, and reported as a component of market risk exposure.

Management of credit risk

The Group uses an internal risk rating system to assess the credit quality of corporate borrowers and counterparties. Each corporate borrower is assigned a rating, including classified accounts. The risk rating system has 11 grades, further segregated into 24 notches. Grades 1-8 are performing and Grades 9 -11 are non – performing. Non-performing grades are classified based on the below criteria:

Grade	Classification	Criteria	
		Corporate loans	Retail loans
9	Sub-standard loans	Arrears 90 days or more and shows some loss due to adverse factors that hinder repayment	Arrears 90 days or more
10	Doubtful loans	Based on available information, full recovery seems doubtful, leading to a loss on portion of these loans	Arrears 120 days or more
11	Loss loans	Probability of no recovery; after all available courses of action are exhausted	Arrears 180 days or more

The Performing loan portfolio of the Group based on the internal credit ratings is as follows:

Rating grade	Performing loans and advances	
	2015	2014
	AED'000	AED'000
1 – 4	**132,733,360**	126,477,638
5 – 6	**26,664,666**	23,930,098
7	**19,143,544**	24,611,025
8	**3,865,084**	1,465,622
Retail programme lending	**23,785,229**	18,302,587
	206,191,883	194,786,970

In addition, the Group manages credit risk by obtaining collateral where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Credit risk arising from other financial instruments is managed by assigning limits, diversification of investment activities, limiting concentration of exposure to industry sectors, geographical locations and counterparties.

4 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Impairment:

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

	Due from banks and financial institutions		Loans and advances		Non-trading investments	
	2015 AED'000	2014 AED'000	**2015 AED'000**	2014 AED'000	**2015 AED'000**	2014 AED'000
Individually impaired						
Substandard	**-**	-	**1,750,262**	2,271,333	**-**	-
Doubtful	**718**	718	**2,347,374**	1,649,271	**3,342**	3,342
Loss	**-**	-	**2,785,672**	3,364,751	**-**	-
Gross amount	**718**	718	**6,883,308**	7,285,355	**3,342**	3,342
Interest suspended	**-**	-	**(1,036,665)**	(1,124,889)	**-**	-
Specific allowance for impairment	**(718)**	(718)	**(2,087,568)**	(3,122,770)	**-**	-
Carrying amount	**-**	-	**3,759,075**	3,037,696	**3,342**	3,342
Past due but not impaired						
Past due comprises:						
Less than 30 days	**-**	-	**342,240**	153,436	**-**	-
31 – 60 days	**-**	-	**608,016**	151,313	**-**	-
61 – 90 days	**-**	-	**272,687**	177,448	**-**	-
More than 90 days	**-**	-	**603,693**	1,161,766	**-**	-
Carrying amount	**-**	-	**1,826,636**	1,643,963	**-**	-
Neither past due nor impaired	**10,891,768**	11,134,262	**204,365,247**	193,143,007	**63,790,809**	67,489,780
Collective allowance for impairment	**-**	-	**(4,037,405)**	(3,545,314)	**-**	-
Carrying amount	**10,891,768**	11,134,262	**205,913,553**	194,279,352	**63,794,151**	67,493,122

Non trading investment includes investment in equity instruments amounting to AED 36.2 million *(2014: AED 35.9 million)* which does not carry credit risk .

The category of neither past due nor impaired includes renegotiated loans amounting to AED 2,673 million *(2014: AED 1,302 million).*

4 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Impaired loans and advances and non-trading investments
Impaired loans and advances and non-trading investments are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

Past due but not impaired
Past due but not impaired are accounts where either contractual principal or interest are past due and when the accounts show weakness in the borrower's financial position and creditworthiness, and requires more than normal attention. Such weakness is specifically monitored to ensure that the quality of the asset does not further deteriorate. On this class of asset the Group believes that specific impairment is not appropriate at the current condition.

Loans with renegotiated terms
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made material concessions that it would not otherwise consider. Once a loan is restructured, it remains in this category for a minimum period of twelve months, in order to establish satisfactory track record of performance under the restructuring agreement. The Bank determines the twelve-month period to commence from the date of signing of the agreement for restructuring. On this class of asset the Group believes that specific impairment may not be required. In the last twelve months, the Group has renegotiated the following exposures:

	2015 **AED'000**	2014 AED'000
Renegotiated loans	**2,673,243**	1,301,787

Movement of renegotiated loans during the year

	2015 **AED'000**	2014 AED'000
Balance at the beginning of the year	**1,301,787**	1,925,914
Upgraded to neither past due nor impaired during the year	**(586,987)**	(1,672,761)
Downgraded to individually impaired or past due but not impaired during the year	**(526,770)**	(3,946)
Additions during the year	**2,485,213**	1,052,580
Balance at the end of the year	**2,673,243**	1,301,787

4 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Allowances for impairment
The Group establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss allowance. In assessing the collective loss allowance, the Group uses the higher of 1.5% of credit risk weighted assets computed as per the central bank guidelines or incurred but not identified model, established for groups of homogeneous assets with similar risk characteristics that are indicative of the debtor's ability to pay amounts due according to the contractual terms on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Individually assessed loans are required to be classified as impaired as soon as there is objective evidence that an impairment loss has been incurred. Objective evidence of impairment includes observable data such as when contractual payment of principal or interest is overdue and there is known difficulties in the cash flows of counterparties, credit rating downgrades or original terms of the contractual repayment are unable to be met.

Write-off policy
The Group writes off a loan or investment balance (and any related allowances for impairment losses) when it determines that the loans or investments are uncollectible. This is determined after all possible efforts of collecting the amounts have been exhausted.

Collateral
The Group holds various types of collateral against loans and advances and reverse repurchase agreement in the form of mortgage interests over property, other securities, cash deposits and guarantees. The Group accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. When calculating provisions, discount factors as defined by the Central Bank of the UAE are applied to market value of the collateral. Collateral generally is not held against due from banks and financial institutions, and no such collateral was held at 31 December 2015 or 2014.

An estimate of the collateral coverage against non-performing loans and advances (including Islamic financing) is shown below:

	2015	2014
	AED'000	AED'000
Collateral value cover		
0 – 50%	**2,227,378**	2,996,388
50 – 100%	**1,164,453**	1,585,044
Above 100%	**3,491,477**	2,703,923
Total Gross non-performing loans	**6,883,308**	7,285,355

During the year 2015 and 2014, the Group repossessed an insignificant amount of collateral that was held as security against loans and advances.

The Group monitors concentrations of credit risk by industry sector, counterparty and geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

4 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Concentrations by industry sector

	Loans and advances		Investments		Reverse repurchase agreements		Undrawn loan Commitments	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Concentration by industry sector:								
Agriculture	**121,016**	177,690	**-**	-	**-**	-	**3,025**	243,878
Energy	**16,715,572**	16,458,515	**11,369,131**	11,453,093	**-**	-	**4,895,118**	3,695,326
Manufacturing	**18,676,518**	14,008,892	**187,700**	296,994	**-**	-	**4,126,633**	3,691,127
Construction	**10,275,513**	10,185,285	**276,635**	447,736	**-**	-	**3,552,609**	1,854,454
Real estate	**37,729,525**	35,291,197	**55,237**	11,425	**-**	-	**5,197,494**	4,740,885
Trading	**10,797,566**	9,078,453	**69,644**	5,925	**-**	-	**2,149,929**	1,322,361
Transport	**16,467,741**	15,677,618	**3,592,124**	2,733,929	**-**	-	**4,422,957**	1,176,451
Banks	**23,337,915**	24,108,739	**26,276,979**	26,292,582	**12,278,944**	15,097,818	**510,794**	84,478
Other financial institutions	**17,402,161**	14,454,564	**11,283,337**	11,898,976	**1,051,242**	746,559	**3,330,402**	2,449,395
Services	**5,768,988**	6,875,163	**94,728**	67,910	**-**	-	**888,396**	2,336,002
Government	**20,319,828**	23,435,214	**20,940,249**	27,632,632	**-**	-	**84,850**	17,200
Supranational	**-**	-	**1,939,525**	2,077,582	**-**	-	**-**	-
Personal loans for consumption	**25,961,457**	22,822,425	**-**	-	**-**	-	**237,613**	152,427
Personal loans others	**9,407,613**	9,402,258	**-**	-	**-**	-	**388,371**	166,621
Others	**93,778**	96,312	**-**	-	**-**	-	**2,147**	169,459
	213,075,191	202,072,325	**76,085,289**	82,918,784	**13,330,186**	15,844,377	**29,790,338**	22,100,064

Investments include both investments at fair value through profit or loss and non-trading investments.
The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any.

4 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Concentration by location:

	UAE AED'000	Europe AED'000	Arab countries AED'000	Americas AED'000	Asia AED'000	Others AED'000	Total AED'000
As at 31 Dec 2015							
Cash and balances with central banks	**56,088,919**	**8,676,576**	**4,916,552**	**6,686,811**	**13,251**	**-**	**76,382,109**
Investments at fair value through profit or loss	**4,259,257**	**3,604,090**	**2,206,610**	**1,022,383**	**1,175,800**	**22,998**	**12,291,138**
Due from banks and financial institutions	**132,456**	**9,195,874**	**1,038,278**	**172,239**	**339,510**	**13,411**	**10,891,768**
Reverse repurchase agreements	**2,492,191**	**3,086,686**	**7,732,044**	**19,265**	**-**	**-**	**13,330,186**
Derivative financial instruments	**2,564,811**	**5,448,967**	**2,299,616**	**66,084**	**139,955**	**54,658**	**10,574,091**
Loans and advances	**123,326,698**	**36,091,915**	**22,290,748**	**13,366,544**	**15,767,657**	**2,231,629**	**213,075,191**
Non trading investments	**16,000,404**	**17,284,440**	**9,292,509**	**7,721,670**	**12,130,287**	**1,364,841**	**63,794,151**
	204,864,736	**83,388,548**	**49,776,357**	**29,054,996**	**29,566,460**	**3,687,537**	**400,338,634**
As at 31 Dec 2014							
Cash and balances with central banks	25,923,632	1,940,356	6,901,337	20,682,075	4,941	-	55,452,341
Investments at fair value through profit or loss	4,503,547	3,935,090	2,614,687	1,954,294	1,453,448	964,596	15,425,662
Due from banks and financial institutions	1,890,669	7,261,253	1,018,633	149,202	796,729	17,776	11,134,262
Reverse repurchase agreements	1,653,409	3,619,180	10,563,621	-	8,167	-	15,844,377
Derivative financial instruments	2,332,646	3,949,324	1,037,800	61,654	17,147	24,257	7,422,828
Loans and advances	117,589,832	37,545,083	17,478,795	10,978,644	17,123,565	1,356,406	202,072,325
Non trading investments	17,160,578	14,482,857	12,504,983	14,475,736	8,509,619	359,349	67,493,122
	171,054,313	72,733,143	52,119,856	48,301,605	27,913,616	2,722,384	374,844,917

Concentration by location for investments is measured based on the location of the issuer of the security. Concentration by location for all others is measured based on the residential status of the borrower. The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any.

4 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Classification of trading securities and non-trading investments as per their external ratings:

	Non-trading investments		Investments at fair value through profit or loss	
	2015 AED'000	2014 AED'000	**2015 AED'000**	2014 AED'000
AAA	**8,737,990**	16,882,953	**215,396**	43,645
AA to A	**43,655,663**	41,206,783	**7,603,105**	11,067,470
BBB to B	**10,037,106**	6,669,819	**2,475,005**	2,202,910
Unrated	**1,363,392**	2,733,567	**1,997,632**	2,111,637
	63,794,151	67,493,122	**12,291,138**	15,425,662

Unrated investments primarily consist of investments in Government related entities and investments in equities and funds. Investments at fair value through profit or loss are neither past due nor impaired.

Classification of trading securities and non-trading investments as per their counterparties:

	Non-trading investments		Investments at fair value through profit or loss	
	2015 AED'000	2014 AED'000	**2015 AED'000**	2014 AED'000
Government sector	**20,024,093**	26,255,217	**916,156**	1,377,415
Supranational	**370,400**	237,073	**1,569,128**	1,840,510
Public sector	**18,308,431**	18,833,102	**2,820,260**	2,015,112
Banking sector	**21,276,123**	18,303,585	**5,000,856**	7,988,997
Corporate / private sector	**3,815,104**	3,864,145	**1,984,738**	2,203,628
	63,794,151	67,493,122	**12,291,138**	15,425,662

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 a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. Any delay in settlement is rare and monitored.

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 market value of instruments that are favourable to the Group. The positive market value is also referred to as the "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a counterparty defaults. The majority of the Group's derivative contracts are entered into with other banks and financial institutions.

4 Financial risk management *(continued)*

(b) Liquidity risk

Liquidity risk arises from cash flows generated by assets and liabilities, including derivatives and other off-balance sheet commitments, not being matched in currency, size, and term, thereby creating financing needs which potentially cannot be met without incurring substantially higher costs or at any cost at all.

Liquidity risk is defined as the risk that the Group is unable to meet its financial obligations as and when they fall due or that it can only do so at an excessive cost.

Management of liquidity risk
The Group has defined the liquidity risk appetite at a level so as to ensure that the Group has a controlled liquidity risk position with adequate cash or cash-equivalents to be able to meet its financial obligations, in all foreseeable circumstances and without incurring substantial additional costs, for a rolling period of three months.

The liquidity risk appetite is also defined at a level to ensure continued compliance with current and proposed liquidity regulation from both domestic and international regulators, and aligned to support the Group’s external credit rating objectives.

Liquidity limits are defined at the Group level and are cascaded down throughout the organisation to ensure that the Group complies with the defined Group Liquidity Risk appetite. International limits are cascaded to ensure compliance with any additional local regulatory requirements on liquidity management.

At Group level 10 Liquidity metrics have been defined which need to be consistently adhered to. These include Central Bank of the UAE Regulatory requirements as well as Basel III liquidity ratios.

All liquidity policies and procedures are subject to review and approval by G-ALCO.

Exposure to liquidity risk
The contractual asset and liability maturity mismatch report without considering the Group’s retention history is detailed below.

4 Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

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

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	**76,382,109**	75,844,493	537,616	-	-	-	-
Investments at fair value through profit or loss	**12,291,138**	1,760,823	3,607,247	3,272,508	622,175	3,028,385	-
Due from banks and financial institutions	**10,891,768**	10,632,741	258,309	718	-	-	-
Reverse repurchase agreements	**13,330,186**	10,671,882	2,658,304	-	-	-	-
Derivative financial instruments	**10,574,091**	972,618	1,382,894	2,828,035	1,508,624	3,881,920	-
Loans and advances	**205,913,553**	42,993,900	19,996,303	37,620,046	46,069,522	59,233,782	-
Non-trading investments	**63,794,151**	4,488,104	2,484,621	8,313,096	16,076,948	32,431,382	-
Other assets	**10,550,483**	7,912,863	2,637,620	-	-	-	-
Investment properties	**190,546**	-	-	-	-	-	190,546
Property and equipment	**2,645,782**	-	-	-	-	-	2,645,782
	406,563,807	**155,277,424**	**33,562,914**	**52,034,403**	**64,277,269**	**98,575,469**	**2,836,328**
Liabilities and equity							
Due to banks and financial institutions	**42,808,215**	35,932,138	6,657,402	18,873	199,802	-	-
Repurchase agreements	**30,550,652**	27,963,532	2,587,120	-	-	-	-
Euro commercial paper	**8,720,597**	7,125,622	1,594,975	-	-	-	-
Derivative financial instruments	**12,852,358**	1,270,786	1,161,440	2,856,894	2,199,441	5,363,797	-
Customer accounts and other deposits	**233,814,558**	209,805,846	19,503,593	3,490,452	634,750	379,917	-
Term borrowings	**17,740,968**	-	-	6,960,540	7,605,842	3,174,586	-
Other liabilities	**15,582,508**	11,686,881	3,895,627	-	-	-	-
Subordinated notes	**1,275,298**	914,205	-	-	-	361,093	-
Equity	**43,218,653**	-	-	-	-	-	43,218,653
	406,563,807	**294,699,010**	**35,400,157**	**13,326,759**	**10,639,835**	**9,279,393**	**43,218,653**
Undrawn commitments to extend credit	**29,790,338**	2,661,071	6,740,535	10,013,062	6,255,392	4,120,278	-
Financial guarantees	**995,631**	202,015	57,217	562,400	173,999	-	

4 Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

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

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	**55,452,341**	51,914,495	3,537,846	-	-	-	-
Investments at fair value through profit or loss	**15,425,662**	2,546,859	3,643,831	6,097,025	572,182	2,565,765	-
Due from banks and financial institutions	**11,134,262**	10,475,464	658,798	-	-	-	-
Reverse repurchase agreements	**15,844,377**	14,525,319	1,319,058	-	-	-	-
Derivative financial instruments	**7,422,828**	1,546,297	941,943	1,393,080	1,099,799	2,441,709	-
Loans and advances	**194,279,352**	44,544,174	18,756,573	27,686,168	44,319,741	58,972,696	-
Non-trading investments	**67,493,122**	2,893,227	4,871,748	15,720,286	9,713,627	34,294,234	-
Other assets	**6,370,981**	4,778,236	1,592,745	-	-	-	-
Investment properties	**177,533**	-	-	-	-	-	177,533
Property and equipment	**2,498,254**	-	-	-	-	-	2,498,254
	376,098,712	**133,224,071**	**35,322,542**	**50,896,559**	**55,705,349**	**98,274,404**	**2,675,787**
Liabilities and equity							
Due to banks and financial institutions	**36,679,504**	35,865,125	796,028	18,351	-	-	-
Repurchase agreements	**13,875,917**	13,875,917	-	-	-	-	-
Euro commercial paper	**5,484,176**	3,540,073	1,944,103	-	-	-	-
Derivative financial instruments	**10,953,124**	1,455,819	1,154,224	1,124,491	1,622,594	5,595,996	-
Customer accounts and other deposits	**243,184,652**	229,147,733	11,634,192	1,400,368	785,906	216,453	-
Term borrowings	**14,998,716**	2,768,851	502,628	3,192,007	6,745,751	1,789,479	-
Other liabilities	**11,442,600**	8,581,950	2,860,650	-	-	-	-
Subordinated notes	**1,516,641**	-	-	1,037,047	-	479,594	-
Equity	**37,963,382**	-	-	-	-	-	37,963,382
	376,098,712	**295,235,468**	**18,891,825**	**6,772,264**	**9,154,251**	**8,081,522**	**37,963,382**
Undrawn commitments to extend credit	**22,100,064**	3,203,400	4,245,812	5,272,667	5,145,619	4,232,566	-
Financial guarantees	**1,031,799**	462,484	73,460	257,110	238,745	-	-

4 Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

Liabilities	Total AED'000	Gross nominal cash flows AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000
As at 31 December 2015							
Due to banks and financial institutions	**42,808,215**	42,882,288	35,955,521	6,707,215	19,650	199,902	-
Repurchase agreements	**30,550,652**	30,604,006	28,006,870	2,597,136	-	-	-
Euro commercial paper	**8,720,597**	8,767,152	7,165,217	1,601,935	-	-	-
Customer accounts and other deposits	**233,814,558**	234,765,736	209,960,176	19,750,772	3,879,092	704,023	471,673
Term borrowings	**17,740,968**	22,960,492	191,481	270,771	7,729,179	8,012,497	6,756,564
Subordinated notes	**1,275,298**	1,589,004	917,341	20,540	40,469	40,691	569,963
	334,910,288	**341,568,678**	**282,196,606**	**30,948,369**	**11,668,390**	**8,957,113**	**7,798,200**
Undrawn commitments to extend credit	**29,790,338**	29,790,338	26,466,068	579,571	1,925,198	385,782	433,719
Financial guarantees	**995,631**	995,631	995,631	-	-	-	-
As at 31 December 2014							
Due to banks and financial institutions	**36,679,504**	36,694,823	35,876,995	799,385	18,443	-	-
Repurchase agreements	**13,875,917**	13,879,251	13,879,251	-	-	-	-
Euro commercial paper	**5,484,176**	5,490,308	3,541,736	1,948,572	-	-	-
Customer accounts and other deposits	**243,184,652**	244,135,771	229,315,983	11,869,634	1,712,236	943,853	294,065
Term borrowings	**14,998,716**	17,342,734	2,971,099	767,846	3,889,148	7,295,977	2,418,664
Subordinated notes	**1,516,641**	1,902,825	2,428	33,218	1,093,225	49,780	724,174
	315,739,606	**319,445,712**	**285,587,492**	**15,418,655**	**6,713,052**	**8,289,610**	**3,436,903**
Undrawn commitments to extend credit	**22,100,064**	22,100,064	19,906,564	1,432,581	459,905	301,014	-
Financial guarantees	**1,031,799**	1,031,799	1,031,799	-	-	-	-

4 Financial risk management *(continued)*

(c) Market risk

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market factors such as interest rates, credit spreads, foreign exchange rates and market prices of equity and commodity.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are held by the Wholesale - Global Markets Division, together with financial assets and financial liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Group Risk Committee (GRC) and Group Asset & Liability Committee (G-ALCO), which sets limits for each type of risk in aggregate and for specific portfolios. Risk Group is responsible for the development of detailed risk management policies (subject to review and approval by the GRC).

Exposure to market risks – trading portfolios

The principal analytical tool used to measure and control market risk exposure within the Group's trading portfolios which comprise of investments at fair value through profit or loss and trading derivatives is Value at Risk ("VaR"). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model uses historical simulation based on a 99% confidence level and assumes a 1-day holding period. Using market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

The Group uses VaR limits for foreign exchange, interest rate and credit spread. The overall structure of VaR limits is subject to review and approval by the GRC. VaR limits are allocated to trading portfolios.

VaR is driven by actual historical observations and hence, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation the VaR is further supplemented with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. Moreover the trading activity at Group and desk level is subject to Management Action Triggers ("MAT") that are limits on maximum losses that trigger actions from management. The VaR is as follows:

	As at		Average		Minimum		Maximum	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
VaR – Trading Book	**16,984**	8,315	**12,220**	12,115	**7,023**	5,332	**24,505**	25,123
Foreign exchange	**15,131**	1,809	**9,220**	2,388	**46**	247	**22,525**	7,174
Interest Rate	**6,549**	7,560	**6,663**	9,749	**5,294**	4,656	**11,011**	18,856
Credit	**3,869**	4,191	**3,618**	5,346	**1,910**	1,430	**5,346**	14,719
Diversification benefit	**(8,565)**	(5,245)	**(7,281)**	(5,368)	**(227)**	(1,001)	**(14,377)**	(15,626)

Equity and commodity risks are not currently captured in the VaR model. These are under regular monitoring by the Risk Group through a set of market risk sensitivities, notional limits, and management action triggers.

4 Financial risk management *(continued)*

(c) Market risk *(continued)*

Exposure to market risk – banking portfolios

Exposure to Market Risk in the banking portfolios which comprise of non-trading investments, reverse repurchase agreements and certain derivative instruments which are designated as hedging instruments arises primarily from the investment portfolios, interest rate gaps in the banking book, and the Group's overall FX positions.

The principal analytical tool used to measure and control the investment risk exposure within the Group is Value at Risk ("VaR"). The VaR model is the same as the one used for the trading portfolios. The Group uses VaR limits for controlling the overall investment risk, including foreign exchange, interest rate and credit spread. The overall structure of VaR limits is subject to review and approval by the GRC. VaR limits are allocated to different Investment portfolios. The investment risk VaR was as follows:

	As at		Average		Minimum		Maximum	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
VaR – Banking Book	**97,072**	81,943	**84,105**	89,735	**59,546**	72,958	**103,427**	117,435
Foreign exchange	**14,591**	1,455	**8,219**	2,812	**1,579**	1,058	**21,576**	6,953
Interest Rate	**29,071**	27,779	**21,639**	18,540	**13,209**	10,896	**30,885**	41,853
Credit	**95,737**	82,012	**84,952**	93,639	**57,904**	79,998	**99,775**	118,004
Diversification benefit	**(42,327)**	(29,303)	**(30,705)**	(25,256)	**(13,146)**	(18,994)	**(48,809)**	(49,375)

Interest rate risk

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 this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities. Overall interest rate risk positions are managed by using derivative instruments to manage overall position arising from the Group's interest bearing financial instruments. The use of derivatives to manage interest rate risk is described in note 39.

The substantial portion of the Group's assets and liabilities are re-priced within one year. Accordingly there is a limited exposure to interest rate risk.

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 50 basis points *(2014: 50 basis points)* and estimates the following impact on the net profit for the year and equity at that date:

	Net profit for the year		**Equity**	
	2015	**2014**	**2015**	2014
	AED'000	AED'000	**AED'000**	AED'000
Fluctuation in yield	**341,366**	215,762	**325,071**	79,434

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 303,986 million *(2014: AED 278,229 million)* interest bearing assets and AED 251,024 million *(2014: AED 247,779 million)* interest bearing liabilities with interest re-pricing less than one year, for assessing the impact on net profit. The impact on equity includes the impact on net profit and the interest rate sensitivity on the available for sale portfolio. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Notes to the consolidated financial statements

4 Financial risk management *(continued)*

(c) Market risk *(continued)*

The Group's interest rate gap and sensitivity position based on contractual re-pricing arrangements at 31 December 2015 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non interest bearing AED'000
Assets							
Cash and balances with central banks	**76,382,109**	63,825,448	537,615	-	-	-	12,019,046
Investments at fair value through profit or loss	**12,291,138**	3,188,869	2,985,752	2,469,923	622,175	1,342,499	1,681,920
Due from banks and financial institutions	**10,891,768**	9,699,649	259,027	-	-	-	933,092
Reverse repurchase agreements	**13,330,186**	10,671,881	2,658,305	-	-	-	-
Derivative financial instruments	**10,574,091**	-	-	-	-	-	10,574,091
Loans and advances	**205,913,553**	186,893,571	13,963,140	1,392,181	1,945,374	1,365,226	354,061
Non-trading investments	**63,794,151**	6,958,927	2,344,295	6,852,960	15,639,730	31,825,636	172,603
Other assets	**10,550,483**	-	-	-	-	-	10,550,483
Investment properties	**190,546**	-	-	-	-	-	190,546
Property and equipment	**2,645,782**	-	-	-	-	-	2,645,782
	406,563,807	**281,238,345**	**22,748,134**	**10,715,064**	**18,207,279**	**34,533,361**	**39,121,624**
Liabilities and equity							
Due to banks and financial institutions	**42,808,215**	33,537,182	6,657,402	18,873	199,802	-	2,394,956
Repurchase agreements	**30,550,652**	27,963,532	2,587,120	-	-	-	-
Euro commercial paper	**8,720,597**	7,125,622	1,594,975	-	-	-	-
Derivative financial instruments	**12,852,358**	-	-	-	-	-	12,852,358
Customer accounts and other deposits	**233,814,558**	153,391,129	15,876,123	3,444,461	607,537	376,310	60,118,998
Term borrowings	**17,740,968**	1,376,733	-	5,767,088	7,422,561	3,174,586	-
Other liabilities	**15,582,508**	-	-	-	-	-	15,582,508
Subordinated notes	**1,275,298**	914,205	-	-	-	361,093	-
Equity	**43,218,653**	-	-	-	-	-	43,218,653
	406,563,807	**224,308,403**	**26,715,620**	**9,230,422**	**8,229,900**	**3,911,989**	**134,167,473**
On statement of financial position gap		56,929,942	(3,967,486)	1,484,642	9,977,379	30,621,372	(95,045,849)
Off statement of financial position gap		19,620,165	7,412,516	146,045	(1,852,733)	(24,992,293)	(333,700)
Total interest rate sensitivity gap		**76,550,107**	**3,445,030**	**1,630,687**	**8,124,646**	**5,629,079**	**(95,379,549)**
Cumulative interest rate sensitivity		**76,550,107**	**79,995,137**	**81,625,824**	**89,750,470**	**95,379,549**	**-**

4 Financial risk management *(continued)*

(c) Market risk *(continued)*

The Group's interest rate gap and sensitivity position based on contractual re-pricing arrangements at 31 December 2014 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non interest bearing AED'000
Assets							
Cash and balances with central banks	**55,452,341**	37,940,584	3,537,846	-	-	-	13,973,911
Investments at fair value through profit or loss	**15,425,662**	5,320,282	3,544,230	3,500,216	572,182	939,742	1,549,010
Due from banks and financial institutions	**11,134,262**	10,013,326	659,516	-	-	-	461,420
Reverse repurchase agreements	**15,844,377**	14,525,319	1,319,058	-	-	-	-
Derivative financial instruments	**7,422,828**	-	-	-	-	-	7,422,828
Loans and advances	**194,279,352**	179,263,873	10,626,271	785,660	1,964,399	1,176,727	462,422
Non-trading investments	**67,493,122**	6,994,356	4,484,108	13,612,369	8,897,148	32,882,201	622,940
Other assets	**6,370,981**	-	-	-	-	-	6,370,981
Investment properties	**177,533**	-	-	-	-	-	177,533
Property and equipment	**2,498,254**	-	-	-	-	-	2,498,254
	376,098,712	**254,057,740**	**24,171,029**	**17,898,245**	**11,433,729**	**34,998,670**	**33,539,299**
Liabilities and equity							
Due to banks and financial institutions	**36,679,504**	34,087,388	796,028	18,351	-	-	1,777,737
Repurchase agreements	**13,875,917**	13,875,917	-	-	-	-	-
Euro commercial paper	**5,484,176**	3,540,073	1,944,103	-	-	-	-
Derivative financial instruments	**10,953,124**	-	-	-	-	-	10,953,124
Customer accounts and other deposits	**243,184,652**	179,848,560	10,415,527	1,391,507	744,030	162,356	50,622,672
Term borrowings	**14,998,716**	2,768,851	502,628	3,192,007	6,745,751	1,789,479	-
Other liabilities	**11,442,600**	-	-	-	-	-	11,442,600
Subordinated notes	**1,516,641**	-	-	1,037,047	-	479,594	-
Equity	**37,963,382**	-	-	-	-	-	37,963,382
	376,098,712	**234,120,789**	**13,658,286**	**5,638,912**	**7,489,781**	**2,431,429**	**112,759,515**
On statement of financial position gap		19,936,951	10,512,743	12,259,333	3,943,948	32,567,241	(79,220,216)
Off statement of financial position gap		26,624,636	(4,083,326)	4,324,836	(759,154)	(26,106,992)	-
Total interest rate sensitivity gap		**46,561,587**	**6,429,417**	**16,584,169**	**3,184,794**	**6,460,249**	**(79,220,216)**
Cumulative interest rate sensitivity		**46,561,587**	**52,991,004**	**69,575,173**	**72,759,967**	**79,220,216**	**-**

4 Financial Risk Management *(continued)*

(c) Market risk *(continued)*

Foreign exchange risk

Foreign exchange 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 Group's functional currency is the UAE Dirham. 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 (short)/long AED'000	**Forward position (short)/long AED'000**	**Total 2015 (short)/long AED'000**	Total 2014 (short)/long AED'000
Currency				
US Dollar	36,696,915	(16,547,815)	**20,149,100**	10,020,237
UK Sterling Pound	(9,462,720)	9,297,239	**(165,481)**	212,434
Euro	5,141,779	(5,472,359)	**(330,581)**	189,181
Kuwaiti Dinar	(907,613)	857,960	**(49,653)**	(526,251)
Chinese Yuan	(1,041,858)	1,043,328	**1,470**	(2,750)
Saudi Riyal	(607,351)	(5,694,882)	**(6,302,232)**	(2,327,591)
Japanese Yen	1,721,515	(1,701,947)	**19,568**	40,441
Swiss Franc	221,468	(205,495)	**15,973**	470,466
Qatari Riyal	(66,289)	1,742,903	**1,676,614**	1,361,069
Bahraini Dinar	220,175	(432,717)	**(212,542)**	79,843
Egyptian Pound	(6,302)	(48,139)	**(54,441)**	375,877
Jordanian Dinar	533,025	(234,402)	**298,623**	266,422
Malaysian Ringgit	(585,852)	562,711	**(23,141)**	133,456

As AED, SAR and QAR are pegged against US Dollar, the Group's risk exposure to these currencies is limited to that extent. Exposure to other foreign currencies is insignificant.

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

(d) Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed processes, people & systems or from external events, this includes legal and technology risk and excludes strategic and reputation risk.

Operational risks arise across all businesses in the Group. The primary responsibility to ensure that risks are managed and monitored resides with the businesses within the Group. Group's businesses are supported by Embedded risk functions and Group Operational Risk Management as 'second line of defence' to ensure robust risk management.

Further, there are reviews conducted by Group Internal Audit as the 'third line of defence'. The results of internal audit reviews are discussed with the management of the respective divisions and summaries are submitted to the Audit Committee.

4 Financial Risk Management *(continued)*

(d) Operational risk *(continued)*

The Group has an established Operational Risk framework consisting of policies and procedures to identify, assess, monitor, control, report and to manage risks and to notify, identify and rectify incidents. The Operational Risk framework also provides the interrelation with other risk categories. Where appropriate, risk is mitigated by way of insurance.

Typically, Operational Risk events are classified as:

- Internal fraud: Risk of unauthorized activity and fraud perpetrated by employees
- External fraud: Risk of fraud or breach of system security by an external party
- Employee practices & workplace safety: Risk of failures in employee relations, diversity and discrimination, and health and safety risks across the Group
- Damage to physical assets: Risk of impact to the Group due to natural disasters
- Clients, Products & Business Practices: Risk of failing in assessing client suitability, fiduciary responsibilities, improper business practices, flawed products and advisory activities.
- Business Disruption & System failures: Risk of not planning and testing business continuity and disaster recovery for systems
- Execution delivery and process management: Risk of failed transaction execution, customer intake and documentation, vendor management and monitoring and reporting.

The Board has oversight responsibilities for operational risk management across the Group. These responsibilities are delegated and exercised through the Group Risk Committee, which is the senior management forum responsible for the oversight of Operational Risk.

Key responsibilities of Group Risk Committee with regards to Operational risk include to ensure:

- Approval of the Group Operational Risk Management Framework and oversight over its implementation
- Approve large incidents as per the Operational Risk management approval matrix
- Approve the strategy and direction for Operational Risk across the group.

4 Financial Risk Management *(continued)*

(e) Capital management

The Group is governed by CBUAE guidelines on regulatory capital requirements for the Group, in addition the overseas branches and subsidiaries may be directly supervised by their local regulators. The capital management process for the Group is linked to the overall business strategy to ensure that capital is adequate to the level of inherent risk in the business and within the firm's capital risk appetite The Group conducts capital planning in conjunction with the financial budgeting exercise.

The Board and top management define the long term strategic direction for the Group. This provides the framework for the development of a bottom up plan based on the projections from individual business units. The bottom up plan is an input to the annual budgeting process and is conducted at a business unit and country level. These are consolidated for each business division and finally, for the entire Group. Business units, within each division, develop forecasted balance sheet and P&L statements for the next year, by considering the following key parameters:

- the short term (one year) goals
- risk appetite & strategy
- target growth rates
- target returns

The Group's capital management policies aim to ensure that it has sufficient capital to cover the risks associated with its activities and the allocation of capital across the group The assessment of the various risks across the Group and their likely impact is carried out in conjunction with ICAAP undertaken annually. As part of the ICAAP process, GRMD identifies the various risks the Group is exposed to as part of its day-to-day operations. Next the Group sets in place policies and procedures, frameworks and methodologies, contingency plans and other processes to measure, manage and mitigate the impact of such risks. Finally the Group determines the risks which would be covered by capital.

The key objectives of the Group's capital management process are:

- Maintain sufficient capital to meet minimum capital requirement set by CBUAE as well as to ensure transition to Basel III in terms of capital ratios.
- Maintain sufficient capital to support Group's Risk Appetite and strategic objectives as per long-term strategic plan.
- Maintain adequate capital to withstand stress scenarios including increased capital requirements determined through ICAAP.
- To support the Group's credit rating.

The Group conducts a multi-year stress test exercise in which the Balance Sheet and Profit or Loss statements are determined for base case and stress scenarios. The risk factors are impacted by the assumptions made for the base and stress scenarios and the corresponding impact on the capital adequacy is determined. The Group uses macroeconomic stress tests in order to project capital need and capital levels under various unfavourable scenarios. The tests are perceived as an important tool in internal capital planning. The stress test result during 2015 shows that the Group has adequate capital in the event of adverse scenarios during the next 3-year period.

4 Financial risk management *(continued)*

(e) Capital management *(continued)*

The Group's regulatory capital adequacy ratio, set by the Central Bank of the UAE at a minimum level of 12% *(2014: 12%)*, of which Tier 1 is to be 8% *(2014: 8%)* is analysed into two tiers as follows:

	Basel II 2015 AED'000	Basel II 2014 AED'000
Tier 1 capital		
Ordinary share capital	**5,463,885**	4,968,645
Retained earnings	**6,788,805**	6,611,812
Statutory and special reserve	**5,209,722**	4,736,112
General reserve and share option scheme	**19,283,274**	17,325,759
Foreign currency translation reserve	**(132,879)**	(112,143)
Convertible notes - equity component	**-**	108,265
Tier 1 capital notes	**6,754,750**	4,000,000
Deductions from Tier 1 capital	**(269,355)**	(17,647)
Total	**43,098,202**	37,620,803
Tier 2 capital		
Fair value reserve	**(331,937)**	146,220
Qualifying subordinated liabilities	**361,093**	687,004
Allowance for collective impairment	**2,962,209**	2,582,619
Deductions from Tier 2 capital	**(15,752)**	(17,647)
Total	**2,975,613**	3,398,196
Total regulatory capital base	**46,073,815**	41,018,999
Risk weighted assets:		
Credit risk	**236,976,736**	209,665,272
Market risk	**20,397,958**	23,611,281
Operational risk	**17,883,226**	16,936,730
Risk weighted assets	**275,257,920**	250,213,283
Tier 1 capital ratio	**15.66%**	15.04%
Capital adequacy ratio	**16.74%**	16.39%

The Bank and its overseas branches and subsidiaries have complied with all externally imposed capital requirements for all periods presented.

5 Use of estimates and judgements

In the process of applying the Group's accounting policies, IFRS require the management to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent and would result in relevant and reliable information. The management, based on guidance in IFRS and the IASB's Framework for the Preparation and Presentation of Financial Statements has made these estimates and judgements. Listed below are those estimates and judgement which could have the most significant effect on the amounts recognised in the consolidated financial statements.

Key sources of estimation uncertainty

(i) Impairment charge on loans and advances and non-trading investments

Impairment losses are evaluated as described in accounting policy 3(b) (vii) and 4(a).

The Group evaluates impairment on loans and advances and non-trading investments on an ongoing basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognised in the consolidated statement of profit or loss. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgements about counterparty's financial situation and other means of settlement and the net realisable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

(ii) Collective impairment charge

Collective impairment charge is evaluated as described in accounting policy 3(b) (vii) and 4(a) .

In addition to specific impairment charge against individually impaired assets, the Group also maintains a collective impairment allowance against portfolios of loans and advances with similar economic characteristics which have not been specifically identified as impaired. In assessing the need for collective impairment charge, management considers concentrations, credit quality, portfolio size and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical and current economic conditions.

(iii) Impairment charge on property and equipment and investment properties

Impairment losses are evaluated as described in accounting policy 3(j) (iii) and 3(k)(iv).

In determining the net realisable value, the Group uses the selling prices determined by external independent valuer's companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The selling prices are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction.

(iv) Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

(v) Share option scheme

The fair value of the share option scheme is determined using the Black-Scholes model. The model inputs comprise share price, exercise price, share price volatility, contractual life of the option, dividend yield and risk-free interest rate.

5 Use of estimates and judgements *(continued)*

Key sources of estimation uncertainty (continued)

(vi) Valuation of financial instruments

The valuation techniques of financial instruments may require certain unobservable inputs to be estimated by the management. These are discussed in detail in note 6.

(vii) Defined benefit plan

The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost(income) for obligations include the discount rate. Any changes in these assumptions would impact the carrying amount of the defined benefit obligation.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of the estimated future cash flows expected to be required to settle the future obligations. In determining the appropriate discount rate, the Group considers interest rate of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have the terms to maturity approximating the terms of related benefit obligation.

Other key assumptions for defined benefit obligations are based in part on current market conditions. Additional information on these assumptions are disclosed in note 21.

Critical accounting judgements in applying the Group's accounting policies include:

(a) Financial asset and liability classification

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets as "fair value through profit or loss", "held-to-maturity" or "available-for-sale", the Group has determined it meets the description as set out in accounting policy 3(b) (ii).

(b) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging relationship.

(c) Determination of fair value hierarchy of financial instruments

The Group's determination of fair value hierarchy of financial instruments is discussed in note 6.

(d) Structured entities

For all funds managed by the Group, the investors are able to vote by simple majority to remove the Group as fund manager, and the Group's aggregate economic interest in each fund is not material. As a result, the Group has concluded that it acts as agent for the investors in these funds, and therefore has not consolidated these funds.

(e) Operating segments

In preparation of the segment information disclosure, the management has made certain assumptions to arrive at the segment reporting. These assumptions would be reassessed by the management on a periodic basis. Operating segments are detailed in note 41.

6 Financial assets and liabilities

(a) Valuation control framework

The Group has an established control framework with respect to the measurement of fair value. This framework includes a Valuation Committee that reports to the Group Risk Committee. The Group also has control functions to support this framework (Product Control, Independent Price Verification, Model Validation and Group Market Risk) that are independent of front office management. Specific controls include:

- Independence in valuation process between risk taking units and control units;
- System for valuations;
- Verification of observable pricing;
- Review and approval process for new models and changes to models;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments.

The fair values of due from banks and financial institutions, reverse repurchase agreement , due to banks and financial institutions, repurchase agreements and Customer accounts and other deposits which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their book value.

The Group estimates that the fair value of its loans and advances portfolio is not materially different from its book value since the majority of loans and advances carry floating market rates of interest and are frequently re-priced. For loans considered impaired, expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time to collect, the net result of which is not materially different from the carrying value.

(b) Determination of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in active market for an identical instrument.

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; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument’s valuation. This category includes instruments that are valued based on quoted prices of similar instruments after making adjustments based on unobservable inputs that are necessary to reflect fair value of the instrument.

6 Financial assets and liabilities *(continued)*

(c) Valuation techniques

All financial assets and liabilities are measured at amortised cost except for derivatives, investment at fair value through profit or loss and available-for-sale investments which are measured at fair value by reference to published price quotations in an active market or from prices quoted by counterparties or through use of valuation techniques.

Fair value of financial assets and liabilities that are traded in active market are based on quoted market price or dealer price quotations. For all other financial instruments, the Group determines fair value using valuation techniques, such as discounted cash flow models, benchmarking against similar instruments for which observable market prices exist, Black-Scholes model or other valuation models. Each valuation technique models the behaviour of underlying market factors. These market factors include interest rates, credit spreads and other inputs used in estimating discount rates, bond prices, foreign exchange rates, equity and equity index prices, volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common financial instruments, such as interest rate and currency swaps that use only observable market data. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses third party valuation models, which are developed from recognised valuation models. These valuation models require expert judgement for the selection of the most appropriate valuation model to be used including input market data and underlying assumptions for the determination of fair value.

Model inputs and parameters can be calibrated against historical data and market prices for plain vanilla instruments, published forecasts and current or recent observed transactions in similar instruments. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and expert judgement is required to select the most appropriate point in the range.

(d) Fair Value adjustment

Credit Valuation Adjustments
The Group modelled the CVA adjustment in 2015 taking into account trades subject to collateral and netting agreements. The methodology for CVA calculation relies on three components: a standard loss given default assumption of 60% is used for the exposures, the probability of default of the counterparty is implied from credit spreads or credit rating, the expected positive exposure is calculated using simulation methodology or simplified add-on approach. The methodology does not account for wrong way risk.

Model-related adjustments
Model related adjustments are applied when either model inputs are overly simplified or the model has limitations deriving the fair value of a position. These adjustments are required to correct existing model weaknesses or deficiencies that were highlighted during the model review process.

6 Financial assets and liabilities *(continued)*

(e) Fair value of financial instruments

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2015:

	Designated at fair value through profit or loss AED'000	Held for trading AED'000	Available for sale AED'000	Held to maturity AED'000	Loans and receivables AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial Assets							
Cash and balances with central banks	-	-	-	-	76,382,109	-	**76,382,109**
Investments at fair value through profit or loss	11,343	12,279,795	-	-	-	-	**12,291,138**
Due from banks and financial institutions	-	-	-	-	10,891,768	-	**10,891,768**
Reverse repurchase agreements	-	-	-	-	13,330,186		**13,330,186**
Derivative financial instruments	1,098,136	9,475,955	-	-	-	-	**10,574,091**
Loans and advances	-	-	-	-	205,913,553	-	**205,913,553**
Non-trading investments	-	-	57,002,707	6,791,444	-	-	**63,794,151**
Other assets	-	-	-	-	10,396,640	-	**10,396,640**
	1,109,479	**21,755,750**	**57,002,707**	**6,791,444**	**316,914,256**	**-**	**403,573,636**
Financial Liabilities							
Due to banks and financial institutions	-	-	-	-	-	42,808,215	**42,808,215**
Repurchase agreements	-	-	-	-	-	30,550,652	**30,550,652**
Euro commercial paper	-	-	-	-	-	8,720,597	**8,720,597**
Derivative financial instruments	3,900,635	8,951,723	-	-	-	-	**12,852,358**
Customer accounts and other deposits	-	-	-	-	-	233,814,558	**233,814,558**
Term borrowings	-	-	-	-	-	17,740,968	**17,740,968**
Other liabilities[1]	-	3,363,136	-	-	-	11,323,391	**14,686,527**
Subordinated notes	-	-	-	-	-	1,275,298	**1,275,298**
	3,900,635	**12,314,859**	**-**	**-**	**-**	**346,233,679**	**362,449,173**

[1] *Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.*

6 Financial assets and liabilities *(continued)*

(e) Fair value of financial instruments *(continued)*

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2014:

	Designated at fair value through profit or loss AED'000	Held for trading AED'000	Available for sale AED'000	Held to maturity AED'000	Loans and receivables AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial Assets							
Cash and balances with central banks	-	-	-	-	55,452,341	-	**55,452,341**
Investments at fair value through profit or loss	16,630	15,409,032	-	-	-	-	**15,425,662**
Due from banks and financial institutions	-	-	-	-	11,134,262	-	**11,134,262**
Reverse repurchase agreements	-	-	-	-	15,844,377	-	**15,844,377**
Derivative financial instruments	240,300	7,182,528	-	-	-	-	**7,422,828**
Loans and advances	-	-	-	-	194,279,352	-	**194,279,352**
Non-trading investments	-	-	61,957,514	5,535,608	-	-	**67,493,122**
Other assets	-	-	-	-	6,220,564	-	**6,220,564**
	256,930	**22,591,560**	**61,957,514**	**5,535,608**	**282,930,896**	**-**	**373,272,508**
Financial Liabilities							
Due to banks and financial institutions	-	-	-	-	-	36,679,504	**36,679,504**
Repurchase agreements	-	-	-	-	-	13,875,917	**13,875,917**
Euro commercial paper	-	-	-	-	-	5,484,176	**5,484,176**
Derivative financial instruments	4,153,336	6,799,788	-	-	-	-	**10,953,124**
Customer accounts and other deposits	-	-	-	-	-	243,184,652	**243,184,652**
Term borrowings	-	-	-	-	-	14,998,716	**14,998,716**
Other liabilities[1]	-	2,270,053	-	-	-	8,325,861	**10,595,914**
Subordinated notes	-	-	-	-	-	1,516,641	**1,516,641**
	4,153,336	**9,069,841**	**-**	**-**	**-**	**324,065,467**	**337,288,644**

[1] *Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.*

6 Financial assets and liabilities *(continued)*

(e) Fair value of financial instruments *(continued)*

The Group's financial assets and financial liabilities that are classified as loans and receivables and at amortised cost, are categorised under Level 3 in the fair value hierarchy, as there is no active market for such assets and liabilities. The Bank considers these to have a fair value approximately equivalent to their net carrying value as majority of such financial instrument carry variable interest rates and relatively short tenor of maturity.

(f) Financial instrument measured at fair value - hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
As at 31 December 2015				
Financial assets held for trading	**8,954,986**	**3,324,809**	**-**	**12,279,795**
Designated at fair value through profit and loss	**11,343**	**-**	**-**	**11,343**
Available-for-sale financial assets	**51,176,761**	**5,812,140**	**13,806**	**57,002,707**
Derivative financial instruments (Assets)	**4,982**	**10,569,109**	**-**	**10,574,091**
Derivative financial instruments (Liabilities)	**(73,799)**	**(12,778,559)**	**-**	**(12,852,358)**
	60,074,273	**6,927,499**	**13,806**	**67,015,578**
As at 31 December 2014				
Financial assets held for trading	12,506,693	2,902,339	-	15,409,032
Designated at fair value through profit and loss	-	16,630	-	16,630
Available-for-sale financial assets	57,290,896	4,652,747	13,871	61,957,514
Derivative financial instruments (Assets)	1,785	7,421,043	-	7,422,828
Derivative financial instruments (Liabilities)	(6,520)	(10,946,604)	-	(10,953,124)
	69,792,854	4,046,155	13,871	73,852,880

Certain available-for-sale investment securities have been disclosed under Level 3 of the fair value hierarchy as management has recorded these at cost in the absence of observable market data. Management has deemed cost to be a close approximation of their fair value.

There were no transfers between the fair value hierarchies for any financial asset or liability except for three corporate bonds amounting to AED 528 million *(2014: AED 24 million)* which were transferred from Level 1 to Level 2 due to lack of direct pricing inputs.

The following table shows a reconciliation from the beginning balances to the ending balances for instruments measured at fair value and classified as Level 3:

	2015 AED'000	2014 AED'000
Available-for-sale financial assets		
Balance as at 1 January	**13,871**	13,593
Purchases	**-**	-
Settlements and other adjustments	**(65)**	278
Balance as at 31 December	**13,806**	13,871

7 Cash and balances with central banks

	2015 **AED'000**	2014 AED'000
Cash on hand	**1,537,890**	1,488,410
Central Bank of the UAE		
cash reserve deposits	**12,286,267**	11,269,355
certificates of deposits	**41,055,045**	3,500,000
other balances	**1,339,930**	9,903,969
Balances with other central banks		
cash reserve deposits	**1,107,314**	2,466,507
other deposits and balances	**19,055,663**	26,824,100
	76,382,109	55,452,341

Cash reserve deposits are not available for the day to day operations of the Group.

8 Investments at fair value through profit or loss

	2015 **AED'000**	2014 AED'000
Managed portfolios	**1,339,604**	1,354,939
Debt instruments	**10,609,218**	13,876,652
Equity instruments	**342,316**	194,071
	12,291,138	15,425,662

Equity instruments include investments designated at fair value through profit or loss amounting to AED 11,343 thousand *(2014: AED 16,630 thousand).*

9 Due from banks and financial institutions

	2015 **AED'000**	2014 AED'000
Current, call and notice deposits	**1,904,795**	965,667
Margin deposits	**7,777,902**	7,107,875
Fixed deposits	**1,209,071**	3,034,927
Wakala placements	**-**	25,793
	10,891,768	11,134,262

10 Reverse repurchase agreements

The Group enters into reverse repurchase agreements in the normal course of business in which the third party transfers financial assets to the Group for short term financing. The carrying amount of financial assets at the reporting date amounted to AED 13,330 million *(2014: AED 15,844 million).*

No allowances for impairment have been recognised against reverse repurchase agreements during the year *(2014: nil).*

10 Reverse repurchase agreements *(continued)*

At 31 December 2015, the fair value of financial assets accepted as collateral that the Group is permitted to sell or re-pledge in the absence of default was AED 14,077 million *(2014: AED 16,564 million).*

At 31 December 2015, the fair value of financial assets accepted as collateral that have been sold or re-pledged was AED 4,662 million *(2014: AED 3,774 million)*. The Group is obliged to return equivalent securities.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

11 Loans and advances

	2015 AED'000	2014 AED'000
Gross loans and advances	**213,075,191**	202,072,325
Less: interest suspended	**(1,036,665)**	(1,124,889)
Less: allowance for impairment	**(6,124,973)**	(6,668,084)
Net loans and advances	**205,913,553**	194,279,352

An analysis of gross loans and advances by counterparty at the reporting date is shown below:

	2015 AED'000	2014 AED'000
Government sector	**20,319,828**	23,435,215
Public sector	**44,130,248**	41,284,684
Banking sector	**23,337,915**	24,108,739
Corporate / private sector	**89,918,130**	81,019,004
Personal / retail sector	**35,369,070**	32,224,683
Gross loans and advances	**213,075,191**	202,072,325

An analysis of gross loans and advances by product as at the reporting date is shown below:

	2015 AED'000	2014 AED'000
Overdrafts	**12,025,168**	14,101,326
Term loans	**125,060,273**	117,015,766
Trade related loans	**24,575,687**	24,455,002
Real estate and mortgage loans	**34,255,050**	30,957,049
Personal loans	**13,793,431**	12,165,978
Credit cards	**1,716,439**	1,811,662
Vehicle financing loans	**1,649,143**	1,565,542
Gross loans and advances	**213,075,191**	202,072,325

11 Loans and advances *(continued)*

The movement in the allowance for impairment during the year is shown below:

	2015 AED'000	2014 AED'000
At 1 January	**6,668,084**	6,327,026
Charge for the year		
Collective provision	**503,282**	574,433
Specific provision	**1,476,162**	1,152,484
Recoveries	**(378,847)**	(473,901)
Write-backs during the year	**(685,050)**	(411,158)
Amounts written off	**(1,458,658)**	(500,800)
At 31 December	**6,124,973**	6,668,084

The Group provides lending against investment in equity securities and funds. The Group is authorised to liquidate these instruments if their coverage falls below the certain agreed threshold. The carrying value of such loans is AED 7,592 million *(2014: AED 9,977 million)* and the fair value of instruments held as collateral against such loans is AED 20,225 million *(2014: AED 23,324 million)*. During the year, the Group has liquidated insignificant amount of collaterals due to fall in the coverage ratio.

Islamic financing

Included in the above loans and advances are the following Islamic financing contracts:

	2015 AED'000	2014 AED'000
Ijara	**5,534,022**	5,807,880
Murabaha	**3,667,084**	2,880,632
Mudaraba	**16,230**	3,984
Others	**12,405**	8,591
Total Islamic financing contracts	**9,229,741**	8,701,087
Less: allowance for impairment	**(83,699)**	(56,664)
Less: suspended profit	**(701)**	(720)
	9,145,341	8,643,703

The movement in the allowance for impairment during the year is shown below:

	2015 AED'000	2014 AED'000
At 1 January	**56,664**	48,390
Charge for the year		
Collective provision	**(7,971)**	7,826
Specific provision	**56,730**	13,772
Recoveries / write-backs during the year	**(369)**	(7,621)
Amounts written off and other adjustments	**(21,355)**	(5,703)
At 31 December	**83,699**	56,664

11 Loans and advances *(continued)*

Islamic financing *(continued)*

The gross Ijara and the related present value of minimum Ijara payments are as follows:

	2015 AED'000	2014 AED'000
Gross Ijara		
Less than one year	**3,354,662**	2,632,533
Between one and five years	**2,846,133**	3,841,470
More than five years	**2,923,858**	2,289,811
	9,124,653	8,763,814
Less: deferred income	**(3,590,631)**	(2,955,934)
Net Ijara	**5,534,022**	5,807,880

	2015 AED'000	2014 AED'000
Net present value of minimum lease payments		
Less than one year	**2,466,185**	829,612
Between one and five years	**744,191**	3,098,557
More than five years	**2,323,646**	1,879,711
	5,534,022	5,807,880

Investment in finance lease

Included in the above loans and advances are the following investment in finance leases:

	2015 AED'000	2014 AED'000
Gross investment in finance leases	**8,437,582**	6,842,737
Unearned finance income	**(914,338)**	(685,394)
Net investment in finance leases	**7,523,244**	6,157,343
Less: allowance for impairment	**(183,341)**	(172,167)
Less: interest suspended	**(38,081)**	(20,666)
Investment in finance leases	**7,301,822**	5,964,510

11 Loans and advances *(continued)*

Investment in finance lease *(continued)*

	2015 Gross investment in lease AED'000	2014 Gross investment in lease AED'000	2015 Present value of minimum lease payments AED'000	2014 Present value of minimum lease payments AED'000
Within one year	**37,571**	8,166	**36,809**	8,003
One to five years	**1,239,179**	1,245,993	**1,166,587**	1,184,914
More than five years	**7,160,832**	5,588,578	**6,319,848**	4,964,426
	8,437,582	6,842,737	**7,523,244**	6,157,343
Unearned finance income	**(914,338)**	(685,394)	**-**	-
Net investment in finance leases	**7,523,244**	6,157,343	**7,523,244**	6,157,343

The movement in allowance for impairment against finance lease receivables during the year is shown below:

	2015 AED'000	2014 AED'000
At 1 January	**172,167**	146,301
Charge for the year		
Specific provision net of write-backs	**(12,104)**	5,262
Collective provision	**23,278**	20,604
At 31 December	**183,341**	172,167

12 Non-trading investments

	2015 AED'000	2014 AED'000
Available-for-sale investments	**57,002,707**	61,957,514
Held-to-maturity investments	**6,791,444**	5,535,608
	63,794,151	67,493,122

12 Non-trading investments *(continued)*

An analysis of available-for-sale investments by type at the reporting date is shown below:

	2015 AED'000			2014 AED'000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Equity investments	**22,424**	**13,781**	**36,205**	22,188	13,687	35,875
Debt investments	**63,277,418**	**344,129**	**63,621,547**	66,643,904	226,277	66,870,181
Funds	**136,373**	**26**	**136,399**	586,882	184	587,066
	63,436,215	**357,936**	**63,794,151**	67,252,974	240,148	67,493,122
Less:						
Allowance for impairment	**-**	**-**	**-**	-	-	-
	63,436,215	**357,936**	**63,794,151**	67,252,974	240,148	67,493,122

Debt instruments under repurchase agreements included in quoted available-for-sale investments at 31 December 2015 amounted to AED 24,434 million *(2014 : AED 10,126 million).*

13 Other assets

	2015 AED'000	2014 AED'000
Interest receivable	**3,914,405**	2,898,304
Acceptances	**5,497,104**	2,405,047
Sundry debtors and other receivables	**1,108,588**	1,049,143
Deferred tax asset	**30,386**	18,487
	10,550,483	6,370,981

The Group does not perceive any significant credit risk on interest receivable and acceptances.

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

14 Investment properties

	Land and buildings AED'000
Cost	
At 1 January 2014	143,987
Additions and transfers	228,521
Deletions	(174,259)
At 31 December 2014	198,249
Additions and transfers	**30,818**
Deletions	**(2,195)**
At 31 December 2015	**226,872**
Accumulated depreciation	
At 1 January 2014	8,727
Charge for the year	2,015
Additions and transfers	19,501
Deletions	(9,527)
At 31 December 2014	20,716
Charge for the year	**1,987**
Additions and transfers	**13,623**
Deletions	**-**
At 31 December 2015	**36,326**
Carrying amounts	
At 31 December 2014	177,533
At 31 December 2015	**190,546**

The Group estimates that the fair value of the investment properties approximates its carrying amounts as at the reporting date.

The fair values of the Group's investment properties are categorised under level 3 of the fair value hierarchy.

15 Property and equipment

	Land, buildings and alterations AED'000	Computer systems and equipment AED'000	Furniture, equipment, safes and vehicles AED'000	Capital work -in-progress AED'000	Total AED'000
Cost					
At 1 January 2014	2,631,925	788,602	340,059	151,378	3,911,964
Additions	29,675	61,990	37,436	173,862	302,963
Allocations from CWIP	19,305	55,988	4,370	(79,663)	-
Disposals, transfers and write offs[1]	(82,225)	(19,115)	(15,373)	-	(116,713)
At 31 December 2014	2,598,680	887,465	366,492	245,577	4,098,214
Additions	**17,920**	**42,029**	**13,487**	**347,636**	**421,072**
Allocations from CWIP	**15,500**	**150,167**	**16,063**	**(212,548)**	**(30,818)**
Disposals, transfers and write offs[1]	**(16,513)**	**(38,548)**	**(29,938)**	**-**	**(84,999)**
At 31 December 2015	**2,615,587**	**1,041,113**	**366,104**	**380,665**	**4,403,469**
Accumulated depreciation and impairment losses					
At 1 January 2014	732,877	461,850	243,629	-	1,438,356
Charge for the year	59,153	122,163	39,693	-	221,009
Disposals, transfers and write offs[1]	(25,845)	(17,058)	(16,502)	-	(59,405)
At 31 December 2014	766,185	566,955	266,820	-	1,599,960
Charge for the year	**42,464**	**148,270**	**38,238**	**-**	**228,972**
Impairment	**4,300**	**-**	**-**	**-**	**4,300**
Disposals, transfers and write offs[1]	**(20,629)**	**(27,851)**	**(27,065)**	**-**	**(75,545)**
At 31 December 2015	**792,320**	**687,374**	**277,993**	**-**	**1,757,687**
Carrying amounts					
At 31 December 2014	1,832,495	320,510	99,672	245,577	2,498,254
At 31 December 2015	**1,823,267**	**353,739**	**88,111**	**380,665**	**2,645,782**

[1] *adjusted for foreign exchange translation impact*

16 Due to banks and financial institutions

	2015 AED'000	2014 AED'000
Banks and financial institutions		
Current, call and notice deposits	**2,124,348**	1,712,526
Margin	**1,189,984**	804,430
Fixed deposits	**26,963,999**	20,427,596
Wakala deposit	**-**	350,000
	30,278,331	23,294,552
Central banks		
Current and call deposits	**338,655**	94,176
Fixed and certificate of deposits	**12,191,229**	13,290,776
	12,529,884	13,384,952
	42,808,215	36,679,504

Due to banks and financial institutions are denominated in various currencies and carry a rate of interest in the range of 0% to 2.2% *(2014: 0% to 9.25%).*

17 Repurchase agreements

The Group enters into repurchase agreements in the normal course of business by which it transfers recognised financial assets directly to third parties.

The carrying value that is also the fair value of financial assets collateralised at the reporting date amounted to AED 25,786 million *(2014: AED 10,129 million)* and their associated financial liabilities amounted to AED 30,551 million *(2014: AED 13,876 million).* The net difference between the fair value of the financial assets collateralised and the carrying value of the repurchase agreement is a shortage AED 4,765 million *(2014: shortage AED 3,747 million)*. The shortage is covered by re-pledging financial assets received as collateral against reverse repurchase agreements.

18 Euro commercial paper

The Bank established a USD 2,000,000 thousand Euro commercial Paper Programme (the "ECP Programme") for the issuance of Euro commercial paper under an agreement dated 13 September 2006 with Citibank, N.A.

The notes outstanding as at the reporting date amounted to AED 8,720,597 thousand *(2014: AED 5,484,176 thousand).* They are denominated in various currencies, bear interest in the range of -0.13% to 0.99% *(2014:* 0.05% to 0.90%) and have maturity periods of less than 12 months.

The Group has not had any defaults of principal, interests, or other breaches with respect to its Euro commercial paper during 2015.

19 Customer accounts and other deposits

	2015 AED'000	2014 AED'000
By account:		
Current accounts	**58,809,496**	56,575,565
Savings accounts	**12,449,667**	11,709,701
Margin accounts	**1,379,276**	1,088,714
Notice and time deposits	**138,649,803**	163,051,617
	211,288,242	232,425,597
Certificates of deposit	**22,526,316**	10,759,055
	233,814,558	243,184,652

	2015 AED'000	2014 AED'000
By counterparty:		
Government sector	**26,172,119**	69,576,013
Public sector	**51,607,710**	38,591,210
Corporate / private sector	**67,610,865**	61,244,186
Personal / retail sector	**65,897,548**	63,014,188
	211,288,242	232,425,597
Certificates of deposit	**22,526,316**	10,759,055
	233,814,558	243,184,652

	2015 AED'000	2014 AED'000
By location:		
UAE	**130,476,271**	168,406,055
Europe	**28,224,650**	19,785,974
Arab countries	**30,004,257**	29,396,480
Americas	**12,279,589**	7,349,566
Asia	**10,116,743**	7,151,183
Others	**186,732**	336,339
	211,288,242	232,425,597
Certificates of deposit	**22,526,316**	10,759,055
	233,814,558	243,184,652

19 Customer accounts and other deposits *(continued)*

Islamic customers' deposits

Included in the above Customer accounts and other deposits are the following Islamic term deposits:

	2015 AED'000	2014 AED'000
Wakala deposits	**2,546,852**	3,320,410
Mudaraba deposits	**385,128**	360,627
	2,931,980	3,681,037

20 Term borrowings

	2015 AED'000	2014 AED'000
Convertible notes	**1,766,137**	1,728,180
Other term notes	**15,974,831**	13,270,536
	17,740,968	14,998,716

Convertible notes includes USD 500 million notes that mature in March 2018 and carry a fixed coupon that is paid semi-annually in arrears. The value of the conversion option at inception was AED 108,265 thousand and as such has been classified as a part of equity under convertible note – equity component reserve.

During the year, the Bank has issued various fixed and floating rate notes. The Bank hedges its currency and interest rate exposure on these notes. The nominal values of the notes issued during the year are stated below:

	2015 AED'000	2014 AED'000
Fixed rate		
AUD	**80,527**	1,205,479
CNH	**111,803**	-
EUR	**99,901**	-
HKD	**75,826**	-
USD	**4,058,665**	-
Floating rate		
USD	**1,377,375**	-
	5,804,097	1,205,479

The Bank has hedged the interest rate and foreign currency exposure on term borrowings. The nominal value hedges are AED 15.96 billion (2014: AED 15.16 billion) and the risks being hedged have a net positive fair value of AED 522.40 million (2014: net positive fair value of AED 22.03 million). The Group has not had any defaults of principal, interests, or other breaches with respect to its term borrowings during 2015 and 2014.

20 Term borrowings *(continued)*

The following term notes are outstanding at 31 December:

		2015						2014					
Currency	**Interest**	**Up to 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 3 years AED'000**	**3 to 5 years AED'000**	**Over 5 Years AED'000**	**Total AED'000**	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 Years AED'000	Total AED'000
AUD	Fixed rate of 3.4% to 5% p.a.	**-**	**-**	**817,075**	**1,191,935**	**-**	**2,009,010**	-	-	-	2,167,177	-	2,167,177
CNH	Fixed rate of 4.8 % p.a.	**-**	**-**	**-**	**114,293**	**-**	**114,293**	-	-	-	-	-	-
EUR	Fixed rate of 0.6% p.a.	**-**	**-**	**-**	**99,887**	**-**	**99,887**	-	-	-	-	-	-
HKD	Fixed rate of 2.4% to 4.5% p.a.	**-**	**-**	**299,795**	**160,050**	**429,833**	**889,678**	-	-	300,703	159,376	337,227	797,306
JPY	Fixed rate of 2.6% p.a.	**-**	**-**	**-**	**-**	**323,385**	**323,385**	-	-	-	-	369,707	369,707
MXN	Fixed rate of 0.5% p.a.	**-**	**-**	**-**	**-**	**33,184**	**33,184**	-	-	-	-	32,261	32,261
MYR	Fixed rate of 4.8% to 4.9% p.a.	**-**	**-**	**-**	**404,616**	**-**	**404,616**	-	502,628	-	-	492,505	995,133
USD	Fixed rate of 1% to 5.1% p.a.	**-**	**-**	**4,650,218**	**5,451,779**	**2,388,184**	**12,490,181**	2,768,851	-	2,891,304	4,419,198	557,779	10,637,132
USD	1-3 Month Libor + 37 to 68 bps p.a.	**-**	**-**	**1,193,452**	**183,282**	**-**	**1,376,734**	-	-	-	-	-	-
		-	**-**	**6,960,540**	**7,605,842**	**3,174,586**	**17,740,968**	2,768,851	502,628	3,192,007	6,745,751	1,789,479	14,998,716

21 Other liabilities

	2015 AED'000	2014 AED'000
Interest payable	**3,538,842**	2,375,884
Acceptances *(note 13)*	**3,885,572**	1,877,159
Provision employees' end of service benefits	**487,047**	462,620
Accounts payable, sundry creditors and other liabilities	**7,546,500**	6,615,847
Overseas income tax	**124,547**	111,090
	15,582,508	11,442,600

Employees end of Service benefits

Defined benefit obligations
The Group provides for end of service benefits for its eligible employees. An actuarial valuation has been carried out as at December 31, 2015 to ascertain present value of the defined benefit obligation. A registered actuary in the UAE was appointed to evaluate the same. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

The following key assumptions (weighted average rates) were used to value the liabilities:

	2015	2014
Discount rate	**4.00% per annum**	3.25% per annum
Salary increase rate	**2.00% per annum**	3.00% per annum

Demographic assumptions for mortality, withdrawal and retirement were used in valuing the liabilities and benefits under the plan. Because of the nature of the benefit, which is a lump sum payable on exit due to any cause, a combined single decrement rate has been used.

A shift in the in the discount rate assumption by +/- 50 basis points would impact the liability by AED 9,871 thousand *(2014: AED 14,818 thousand)* and AED 10,633 thousand *(2014: AED 12,722 thousand)* respectively. Similarly, a shift in the salary increment assumption by +/- 50 basis points would impact the liability by AED 10,815 thousand *(2014: AED 12,895 thousand)* and AED 10,133 thousand *(2014: AED 12,256 thousand)* respectively.

The movement in the employees end of service obligation was as follows:

	2015 AED'000	2014 AED'000
Balance at 1 January	**462,620**	448,018
Net charge during the year	**93,789**	90,702
Paid during the year	**(69,362)**	(76,100)
Balance at 31 December	**487,047**	462,620

21 Other liabilities *(continued)*

Defined contribution plan

The Group pays contributions for its eligible employees which are treated as defined contribution plans. The charge for the year in respect of these contributions is AED 79,970 thousand *(2014: AED 73,039 thousand)*. As at the reporting date, pension payable of AED 11,874 thousand has been classified under other liabilities *(2014: AED 12,830 thousand).*

Overseas income tax

The Group has provided for overseas income tax in accordance with management's estimate of the total amount payable based on tax rates enacted or substantially enacted as at the reporting date. Where appropriate the Group has made payments of tax on account in respect of these estimated liabilities.

The overseas income tax charge for the year is calculated based upon the adjusted net profit for the year. The movement in the provision was as follows:

	2015	**2014**
	AED'000	AED'000
At 1 January	**111,090**	92,380
Charge for the year	**308,956**	271,109
Overseas income tax paid, net of recoveries	**(295,499)**	(252,399)
At 31 December	**124,547**	111,090

22 Subordinated notes

	2015	2014
	AED'000	AED'000
Liability component		
15 March 2006 issue	**914,205**	1,037,047
10 December 2012 issue	**361,093**	479,594
	1,275,298	1,516,641

22 Subordinated notes *(continued)*

15 March 2006 issue:

The Bank issued AED 2.5 billion subordinated convertible notes due on 15 March 2016 in accordance with the approval of the Extraordinary General Meeting held on 22 November 2005. The notes bear an interest rate equal to 3 month EIBOR plus 0.25% paid quarterly.

During the year, the Bank purchased back AED 125,000 thousand *(2014: AED Nil)* of 15 March 2006 issue from the market for AED 124,938 thousand *(2014: AED Nil)*. As a result, the total outstanding liability decreased by AED 124,790 thousand *(2014: AED Nil)*. Further, a loss on the extinguishment in the amount of AED 148 thousand *(2014: AED Nil)* was recognised in the consolidated statement of profit or loss.

The above mentioned notes are presented in the consolidated statement of financial position as follows:

	2015 AED'000	2014 AED'000
Proceeds from issue of convertible notes	**2,500,000**	2,500,000
Less: amount classified as equity	**(72,926)**	(72,926)
Carrying amount of liability component on initial recognition	**2,427,074**	2,427,074
Add: cumulative accreted interest	**26,357**	27,846
Less: converted liability component	**(1,347,973)**	(1,347,973)
Carrying amount of liability bought back	**(191,253)**	(69,900)
Carrying amount of liability component	**914,205**	1,037,047

The effective interest rate as at 31 December 2015 was 3 month EIBOR plus 0.301% *(2014: 3 month EIBOR plus 0.301%)*.

10 December 2012 issue:

On 10 December 2012, the Bank issued MYR 500 million subordinated notes due on 9 December 2027. The notes bear an interest rate equal to 4.75% and will be paid on a semi-annual basis. The Bank has hedged the currency and interest rate exposure on these notes. The nominal value hedge is AED 427.74 million *(2014: AED 524.71 million)* and the risks being hedged has a negative fair value of AED 65.19 million *(2014: negative fair value of AED 43.22 million)*. The effective interest rate as at 31 December 2015 was 4.79% *(2014: 4.79%)*.

The Group has not had any defaults of principal, interests, or other breaches with respect to its subordinated notes during 2015 and 2014.

23 Capital and reserves

Share capital

The authorised share capital of the Bank comprise 5,210 million ordinary shares of AED 1 each *(2014: 4,736 million shares of AED 1 each)*. The issued and fully paid share capital at 31 December 2015 is comprised of 5,210 million ordinary shares of AED 1 each *(2014: 4,736 million ordinary shares of AED 1 each)*.

23 Capital and reserves *(continued)*

Reconciliation of Share capital

	2015 **AED'000**	2014 AED'000
As at 1 January	**4,736,112**	4,305,556
Shares issued under Share option scheme	**-**	-
	4,736,112	4,305,556
Bonus shares issued during the period	**473,611**	430,556
	5,209,723	4,736,112
Treasury shares held *(note 25)*	**(11,083)**	(12,940)
As at 31 December	**5,198,640**	4,723,172

Statutory and special reserves

In accordance with the Bank's Articles of Association and the requirements of the Union Law No. (10) of 1980, a minimum of 10% of the annual net profit should be transferred to both statutory and special reserve until each of these reserves equal to 50% of the paid-up share capital. The Statutory and special reserve are not available for distribution to the shareholders.

Dividends

The following dividends were paid by the Group during the year ended 31 December:

	2015 **AED'000**	2014 AED'000
Cash dividend AED 0.40 per ordinary share *(2014: 0.40 per ordinary share)*	**1,889,971**	1,712,848
10% bonus shares *(2014: 10% bonus shares*) issued	**473,611**	430,556

Proposed dividends:

On 27 January 2016, a cash dividend of AED 0.40 per ordinary share and nil bonus share *(2014: proposed cash dividend of AED 0.40 per ordinary share and 10% bonus shares)* was proposed by the Board of Directors in respect of 2015 which is subject to the approval of the shareholders at the Annual General Meeting.

Other reserves

Other reserves include the following:

(i) ***General reserve***

The general reserve is available for distribution to the shareholders at the recommendation of the Board of Directors. On 10 March 2015 the AGM approved the transfer of AED 2.4 billion *(31 December 2014: AED 2.4 billion)* to general reserve.

23 Capital and reserves *(continued)*

Other reserves *(continued)*

(ii) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of non-trading investments, until the investment is derecognised or impaired, and cash flow hedge reserve.

	2015 AED'000	2014 AED'000
Revaluation reserve – available-for-sale investments		
At 1 January	**331,620**	787,157
Net unrealised gains during the year	**17,013**	380,315
Net cumulative realised gains recognised in the consolidated statement of profit or loss during the year	**(635,645)**	(835,852)
At 31 December	**(287,012)**	331,620
Hedging reserve – cash flow hedge		
At 1 January	**(6,688)**	35,896
Changes in fair value	**(38,237)**	(42,584)
At 31 December	**(44,925)**	(6,688)
Total at 31 December	**(331,937)**	324,932

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

(iii) Foreign currency translation reserve

Foreign currency translation reserve represents the exchange differences arising from translation of the net investment in foreign operations.

24 Tier 1 capital notes

Tier 1 capital notes are perpetual, subordinated, unsecured and carry a fixed coupon during the initial period and are paid semi-annually in arrears. The Bank may elect not to pay a coupon at its own discretion. The note holder does not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default. In addition, there are certain circumstances under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full. During the period, a coupon payment election was made by the Bank in the amount of AED 201.2 million *(2014: AED 187.5 million).*

24 Tier 1 capital notes *(continued)*

	Currency	**2015 AED'000**	2014 AED'000
Government of Abu Dhabi Notes *(6 month EIBOR plus 2.3 percent per annum)*	AED	**4,000,000**	4,000,000
USD 750 million Notes *(5 year mid swap rate plus 3.35 percent per annum)*	USD	**2,754,750**	-
		6,754,750	4,000,000

On 17 June 2015, USD 750 million Tier 1 capital notes were issued by the Bank. These notes are perpetual and carry an interest rate of 5.25 percent (calculated based on the relevant 5 year mid swap rate plus 3.35 percent per annum) during the "initial period". After the initial period, at every reset date, interest would be calculated for the next reset period at the relevant Five-Year Mid Swap Rate plus a margin of 3.35 percent per annum. Interest is payable semi-annually in arrears on these notes. The "Initial Period" is the period (from and including) the Issue Date to (but excluding) the First Call Date. The "Reset Date" is the First Call Date and every fifth anniversary thereafter. These notes are callable by the Bank beginning from 17 June 2020 "First Call date" and every interest payment date thereafter.

25 Share option scheme

The Bank had introduced in 2008 a share based payment scheme (the "Scheme") for selected employees which would vest over three years and can be exercised within the next three years after the vesting period. The key vesting condition is that the option holder is in continued employment with the Bank until the end of vesting period. The options lapse six years after their date of grant irrespective of whether they are exercised or not.

The Group has established a subsidiary to issue shares when the vested option is exercised by the employee.. These shares are treated as treasury shares until exercised by the option holders.

As at the reporting date 2,976 thousand *(2014: 14,490 thousand)* options were exercised by the option holders resulting in an increase in the total share capital by AED 2,976 thousand *(2014: AED 14,490 thousand)* and share premium by AED 19,772 thousand *(2014: AED 101,865 thousand)*.

The numbers of share options are as follows:

	2015 Number of options in thousands	2014 Number of options in thousands
Outstanding at 1 January	**33,278**	23,950
Granted during the year	**18,745**	24,505
Net forfeited during the year	**(1,096)**	(634)
Exercised during the year	**(2,976)**	(14,490)
Expired during the year	**(70)**	(53)
Outstanding at 31 December	**47,881**	33,278

The average exercise price of options exercised during 2015 was AED 7.64 *(2014: AED 8.03)*. The options outstanding as at 31 December 2015 have an exercise price per share ranging between AED 6.85 to 12 *(2014: AED 7.54 to 11.44)*.

25 Share option scheme *(continued)*

Reconciliation of treasury shares held under the Scheme

	2015 AED'000	2014 AED'000
As at 1 January	**12,940**	25,086
Shares issued under the Scheme	**-**	-
	12,940	25,086
Options exercised by staff during the period	**(2,976)**	(14,490)
	9,964	10,596
Bonus shares issued during the period	**1,119**	2,344
As at 31 December	**11,083**	12,940

26 Interest income

	2015 AED'000	2014 AED'000
Interest from		
Central banks	**199,761**	204,813
Banks and financial institutions	**128,481**	179,446
Reverse repurchase agreements	**72,130**	102,801
Investments at fair value through profit or loss	**275,002**	234,139
Non-trading investments	**1,756,584**	1,879,110
Loans and advances	**6,533,171**	6,034,303
	8,965,129	8,634,612

27 Interest expense

	2015 AED'000	2014 AED'000
Interest to		
Banks and financial institutions	**297,803**	177,035
Repurchase agreements	**120,392**	9,236
Euro commercial paper	**28,571**	19,505
Customer accounts and other deposits	**986,732**	1,000,909
Term borrowings	**553,362**	689,424
Subordinated notes	**34,184**	39,540
	2,021,044	1,935,649

28 Income from Islamic financing contracts

	2015 AED'000	2014 AED'000
Ijara	**203,725**	223,266
Murabaha	**181,900**	106,564
Mudaraba	**-**	7,062
	385,625	336,892

29 Depositors' share of profits

	2015 AED'000	2014 AED'000
Wakala deposits	**16,705**	14,355
Mudaraba deposits	**5,927**	3,482
	22,632	17,837

30 Net fee and commission income

	2015 AED'000	2014 AED'000
Fee and commission income		
Trade finance	**601,825**	518,650
Collection services	**58,548**	76,515
Brokerage income	**65,652**	147,079
Asset management and investment services	**133,047**	187,667
Investments, derivatives and risk participation	**22,137**	146,065
Retail and corporate lending	**802,168**	801,845
Cards and e-services	**1,046,546**	852,798
Accounts related services	**68,327**	94,890
Commission on transfers	**70,833**	73,638
Others	**125,465**	103,373
Total fee and commission income	**2,994,548**	3,002,520
Fee and commission expense		
Brokerage commission	**31,247**	35,459
Handling charges	**5,977**	6,110
Credit card charges	**736,122**	569,755
Retail and corporate lending	**90,524**	51,068
Others	**24,436**	29,536
Total fee and commission expense	**888,306**	691,928
Net fee and commission income	**2,106,242**	2,310,592

Asset management and investment service fees include fees earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

31 Net foreign exchange gain

	2015 AED'000	2014 AED'000
Trading and retranslation gain on foreign exchange and related derivatives[1]	**469,412**	(105,120)
Dealings with customers	**348,175**	301,205
	817,587	196,085

[1] Due to effective hedging strategies, the offsetting impact of hedging instruments is reflected in the net gains from sale of non-trading investments *(note 32)*.

32 Net gain on investments and derivatives

	2015 AED'000	2014 AED'000
Net realised and unrealised gains on investments at fair value through profit or loss and derivatives[2]	**(384,523)**	(78,806)
Net gain from sale of non-trading investments	**635,645**	835,852
Dividend income	**3,067**	7,356
	254,189	764,402

Interest income on debt instruments classified as investments at fair value through profit or loss as well as debt instruments classified as non-trading investments is presented within interest income.

[2]*Includes credit value adjustment of AED 71 million (2014: AED 72 million).*

33 Other operating income

	2015 AED'000	2014 AED'000
Gain on sale of investment properties	**-**	56,353
Others	**70,754**	69,267
	70,754	125,620

34 General, administration and other operating expenses

	2015 AED'000	2014 AED'000
Staff costs	**2,773,739**	2,532,726
Other general and administration expenses	**1,041,688**	907,387
Depreciation	**230,959**	223,024
Donations and charity	**36,533**	32,896
	4,082,919	3,696,033

35 Net impairment charge

	2015 AED'000	2014 AED'000
Collective provision for loans and advances	**503,282**	574,433
Specific provision for loans and advances	**1,476,162**	1,152,484
Write back of provisions for loans and advances	**(685,050)**	(411,158)
Recovery of loan loss provisions	**(378,847)**	(473,901)
Write-off of impaired financial assets	**64,707**	43,635
Recovery of loans previously written off	**(41,594)**	(6,627)
(Write back) / impairment of		
- other financial assets	**11**	3,603
- non financial assets	**4,300**	(14,342)
	942,971	868,127

36 Overseas income tax expense

In addition to adjustments relating to deferred taxation, the charge for the year is calculated based upon the adjusted net profit for the year at rates of tax applicable in respective overseas locations.

The charge to the consolidated statement of profit or loss for the year was as follows:

	2015 AED'000	2014 AED'000
Charge for the year	**308,956**	271,109
Adjustments relating to deferred taxation	**(10,813)**	579
	298,143	271,688

Reconciliation of Group's tax on profit based on accounting and profit as per the tax laws is as follows:

	2015 AED'000	2014 AED'000
Profit before taxation[1]	**1,144,973**	1,016,862
Tax calculated at domestic tax rates applicable to profits in the respective countries	**277,435**	245,925
Tax effects of:		
- Income not subject to tax	**(3,918)**	(6,951)
- Expenses not deductible for tax purpose	**13,619**	27,888
- Utilisation of previously unrecognised tax losses	**(358)**	(1,338)
- Effect of tax offsets not recognised as deferred tax assets	**-**	(2,804)
- Deductible temporary difference now recognised as deferred tax assets	**(1,792)**	(2,556)
- Adjustment pertaining to prior years	**6,793**	11,524
- Withholding tax net of benefits	**6,364**	-
Total tax charge	**298,143**	271,688

[1] *Profit before taxation amount consists of only those entities that are under taxable jurisdictions.*

37 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following amounts maturing within three months of the date of the acquisition / placement:

	2015 AED'000	2014 AED'000
Cash and balances with central banks	**72,190,756**	51,166,206
Due from banks and financial institutions	**2,748,176**	2,960,720
Cash and cash equivalents	**74,938,932**	54,126,926

38 Commitments and contingencies

	2015 AED'000	2014 AED'000
Letters of credit	**49,145,032**	56,212,240
Letters of guarantee	**67,300,403**	64,839,308
Undrawn commitments to extend credit	**29,790,338**	22,100,064
Financial guarantees	**995,631**	1,031,799
	147,231,404	144,183,411
Capital and operating lease commitments:		
- Commitments for future capital expenditure	**43,147**	159,799
- Commitments for future operating lease payments	**205,082**	114,117
	248,229	273,916
Total commitments and contingencies	**147,479,633**	144,457,327

Credit risk characteristics of these unfunded facilities closely resemble the funded facilities as described in note 4.

38 Commitments and contingencies *(continued)*

Letters of credit and guarantee commit the Group to make payments on behalf of customers contingent upon the production of documents or the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to extend loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Commitments for operating lease payments are payable as follows:

	2015 AED'000	2014 AED'000
Less than one year	**68,316**	37,454
Between one and five year	**100,791**	61,566
More than five year	**35,975**	15,097
Total commitments	**205,082**	114,117

Financial guarantee contracts includes credit default agreements entered with banks and financial institutions amounting to AED 496 million *(2014: AED 606 million)* which are primarily denominated in US Dollars.

Concentration by industry:

Financial guarantee contracts mainly pertain to the banks and financial institutions.

Concentration by location:

	Undrawn loan Commitments		**Financial guarantees**	
	2015 AED'000	2014 AED'000	**2015 AED'000**	2014 AED'000
UAE	**14,478,228**	12,352,565	**-**	-
Europe	**5,955,360**	1,845,477	**-**	-
Arab countries	**3,513,468**	2,962,213	**2,123**	2,199
Americas	**2,990,131**	2,353,289	**626,208**	552,110
Asia	**2,074,032**	2,124,435	**367,300**	477,490
Others	**779,119**	462,085	**-**	-
	29,790,338	22,100,064	**995,631**	1,031,799

39 Derivative financial instruments

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risks. Derivative financial instruments include forwards, futures, swaps and options. These transactions are primarily entered with Banks and financial institutions.

Forwards and futures

Currency forwards represent commitments to purchase foreign and/or domestic currencies, including non-deliverable spot transactions (i.e. the transaction is net settled). Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk for futures contracts is negligible, as they are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Swaps

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross - currency interest rate swaps). No exchange of principal takes place, except for certain cross currency swaps. The Group's credit risk represents the potential loss if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of risk. Options may be either exchange - traded or negotiated between the Bank and a customer over the counter (OTC).

Derivatives are measured at fair value by reference to published price quotations in an active market. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models like counterparty prices or valuation techniques such as discounted cash flows, market prices, yield curves and other reference market data.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to their fair values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

39 Derivative financial instruments *(continued)*

31 December 2015	Positive market value	Negative market value	Notional amount	Notional amounts by term to maturity: Less than three months	From three months to one year	From one year to three years	From three years to five years	Over five years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Held for trading:								
Interest rate derivatives								
Swaps	5,033,078	4,675,069	625,847,091	47,366,567	141,472,273	195,125,666	134,640,897	107,241,688
Forwards & Futures	2,389	1,860	14,308,184	734,600	11,737,084	1,836,500	-	-
Options & Swaptions	244,004	244,467	53,747,200	14,169,773	1,310,989	9,266,665	4,929,424	24,070,349
Foreign exchange derivatives								
Forwards	2,237,645	2,333,890	304,043,488	167,162,289	100,855,857	32,446,760	3,578,582	-
Options	854,097	613,922	97,978,672	17,179,858	41,087,785	37,842,121	1,609,725	259,183
Other derivatives contracts	1,104,742	1,082,515	3,021,823	1,116,014	717,969	1,091,898	95,942	-
	9,475,955	8,951,723	1,098,946,458	247,729,101	297,181,957	277,609,610	144,854,570	131,571,220
Held as fair value hedges:								
Interest rate derivatives								
Swaps	1,095,974	3,752,994	70,867,087	2,955,174	5,244,765	13,212,719	16,695,564	32,758,865
	1,095,974	3,752,994	70,867,087	2,955,174	5,244,765	13,212,719	16,695,564	32,758,865
Held as cash flow hedges								
Interest rate derivatives								
Swaps	1,981	144,625	3,992,726	-	-	-	3,662,037	330,689
Forwards	181	3,016	450,954	302,983	147,971	-	-	-
	2,162	147,641	4,443,680	302,983	147,971	-	3,662,037	330,689
Total	10,574,091	12,852,358	1,174,257,225	250,987,258	302,574,693	290,822,329	165,212,171	164,660,774

39 Derivative financial instruments *(continued)*

31 December 2014

	Positive market value	Negative market value	Notional amount	Notional amounts by term to maturity: Less than three months	From three months to one year	From one year to three years	From three years to five years	Over five years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Held for trading:								
Interest rate derivatives								
Swaps	4,083,652	3,618,413	492,193,642	46,689,605	122,982,587	124,502,492	112,422,485	85,596,473
Forwards & Futures	14,148	7,178	45,397,661	-	45,397,661	-	-	-
Options & Swaptions	228,215	235,093	199,324,256	161,251,128	7,568,951	6,996,723	4,417,348	19,090,106
Foreign exchange derivatives								
Forwards	2,253,794	2,390,280	261,772,444	147,620,304	92,573,183	20,454,029	1,124,928	-
Options	231,895	187,576	43,924,361	7,121,106	15,373,524	19,222,732	1,242,976	964,023
Other derivatives contracts	370,824	361,248	2,702,980	594,307	1,079,996	818,752	209,925	-
	7,182,528	**6,799,788**	**1,045,315,344**	**363,276,450**	**284,975,902**	**171,994,728**	**119,417,662**	**105,650,602**
Held as fair value hedges:								
Interest rate derivatives								
Swaps	237,833	4,151,288	54,625,157	3,410,218	5,959,527	31,198,306	1,403,677	12,653,429
	237,833	**4,151,288**	**54,625,157**	**3,410,218**	**5,959,527**	**31,198,306**	**1,403,677**	**12,653,429**
Held as cash flow hedges								
Interest rate derivatives								
Forwards	2,467	2,048	2,499,033	2,499,033	-	-	-	-
	2,467	**2,048**	**2,499,033**	**2,499,033**	**-**	**-**	**-**	**-**
Total	**7,422,828**	**10,953,124**	**1,102,439,534**	**369,185,701**	**290,935,429**	**203,193,034**	**120,821,339**	**118,304,031**

39 Derivative financial instruments *(continued)*

The positive / negative fair value in respect of derivatives represents the gain / loss respectively, arising on fair valuation of the trading and hedging instrument. These amounts are not indicative of any current or future losses, as a similar positive / negative amount has been adjusted to the carrying value of the hedged loans and advances, non-trading investments, term borrowings and subordinated notes.

As at December 31, 2015, the Group received cash collateral of AED 1,220,418 thousand *(2014: AED 661,805 thousand)* against positive fair value of derivative assets from certain counterparties. Correspondingly, the Group placed cash collateral of AED 7,946,698 thousand *(2014: AED 7,160,295 thousand* against the negative fair value of derivative liabilities.

Derivative related credit risk:

This is limited to the positive fair value of instruments that are favourable to the Group. These transactions are primarily entered with banks and financial institutions.

Derivatives held for trading
The Group uses derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate and credit risks or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices. The instruments used mainly include interest rate and currency swaps and forward contracts. The fair values of those derivatives are shown in the table above.

Derivatives held as fair value hedge
The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management strategy by taking offsetting positions in order to reduce its own exposure to fluctuations in exchange and interest rates. The Group uses interest rate swaps, to hedge against the changes in fair value arising from specifically identified interest bearing assets such as loans and advances, non-trading investments, term borrowings and subordinate notes. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

Derivatives held as cash flow hedge
The Group uses forward contracts to hedge the foreign currency risk arising from its financial instruments. The Group has substantially matched the critical terms of the derivatives to have an effective hedge relationship.

40 Related parties

Identity of related parties
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholders, directors and key management personnel of the Group. Key management personnel comprise of those executive committee members "EXCO" of the Group who are involved in the strategic planning and decision making of the Group. The terms of these transactions with related parties are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

Parent and ultimate controlling party
Pursuant to the provisions of Law No. 16 of 2006, Abu Dhabi Investment Council (the "Council") was established which holds 69.92% *(2014: 69.96%)* of the issued share capital of the Bank.

During the year, a coupon payment election of AED 128.9 million *(2014: AED 187.5 million)* was made by the Bank in relation to the AED 4,000 million *(2014: AED 4,000 million)* Government of Abu Dhabi Tier 1 capital notes.

40 Related parties *(continued)*

Compensation of directors and key management personnel

	2015 AED'000	2014 AED'000
Key management compensation		
Short term employment benefits	**90,356**	79,875
Post employment benefits	**2,058**	2,010
Termination benefits	**1,563**	1,524
Share based payments	**13,240**	8,224
Directors' remuneration	**6,689**	7,917

Terms and conditions
Loans and deposits are granted and accepted in various currency denominations and for various time periods. Interest rates earned on such loans and advances extended to related parties during the year have ranged from -0.05% to 8.25% per annum *(2014: 0.05% to 10.75% per annum)* and interest rates incurred on Customer accounts and other deposits placed by related parties during the year have ranged from nil to 4.50% per annum *(2014: nil to 3.80% per annum)*.

Collaterals against lending to related parties range from being nil to fully secure.

	Directors and key management AED'000	Major shareholder AED'000	Others AED'000	2015 Total AED'000	2014 Total AED'000
Balances with related parties at the reporting date are shown below:					
Financial assets	**1,042,519**	**6,861,860**	**59,025,990**	**66,930,369**	72,679,876
Financial liabilities	**353,904**	**4,545,923**	**45,779,356**	**50,679,183**	90,133,577
Contingent liabilities	**130,131**	**5,703,758**	**17,124,831**	**22,958,720**	43,540,431
Transactions carried out during the year with related parties are shown below:					
Interest income	**34,548**	**502,991**	**1,611,574**	**2,149,113**	2,197,909
Interest expense	**234**	**286,730**	**155,104**	**442,068**	421,050
Fee and commission income	**2,224**	**3,116**	**80,251**	**85,591**	75,407

Others comprise Government of Abu Dhabi entities.

No allowances for impairment have been recognised against loans and advances extended to related parties or contingent liabilities issued in favour of related parties during the year *(2014: AED nil)*.

41 Segmental information

The new operating structure adopted mid last year has been developed consisting of three key Business segments across Geographic segments that are driving the business strategy, customer value propositions, products and channel development and customer relationships in addition to supporting the delivery of the Group's financial performance. The structure is simplified and is coherent with its mission of being core to its chosen customers.

Business segments

- ***Global Wholesale***
  Global Wholesale comprises of Global Banking and Global Markets. The business provides corporate, wholesale and investment clients with strategic advice and bespoke innovative solutions catering for their different needs. Global Banking Division offers an array of financial services ranging from relationship lending and financing, syndication, corporate finance, specialised financing, structured finance, leasing, securities services, transactional banking, merchant banking, debt capital market services and special asset advisory. Global Markets Division covers lines of business in relation to institutional and corporate coverage, risk solutions, repos management and investments, commodities, E-commerce and foreign exchange trading.

- ***Global Wealth***
  Global Wealth enfolds high net worth individuals and other clients with sophisticated investment needs. The business furnishes variety of products related to private banking, assets management including local and global funds as well as discretionary portfolios management, custody, brokerage, business development and tailored wealth solutions (such as trust & estate planning, financial planning, segregated mandates, structured lending, real estate and private equity investments).

- ***Global Retail and Commercial***
  The Global Retail and Commercial (''GRC'') targets the retail and commercial customer segments together with their associated operations and administration. The GRC is structured on the basis of the differing needs of the Group's broad customer base covering Mass, affluent, commercial and Islamic Banking.

- ***Head Office***
  The Group provides centralized human resources, information technology, finance, investor relations, risk management, corporate communications, property, legal, internal audit, compliance, procurement, treasury operations and administrative support to all of its businesses units.

41 Segmental information *(continued)*

Geographic segments

The Group will be managing its various business segments through a network of branches, subsidiaries and representative offices within the three defined geographic segments which are UAE, Gulf and International.

- ***UAE***
  NBAD local network is currently available in all the seven emirates constituting the United Arab Emirates.

- ***Gulf***
  NBAD presence in the Gulf region is run through its branches in Bahrain, Kuwait and Oman; the segment is extended to include Jordan.

- ***International***
  NBAD international network is carried out via its operational presence in Brazil, China, Egypt, France, Hong Kong, India, Lebanon, Libya, Malaysia, Sudan, Switzerland, the United Kingdom and the United States of America.

  The accounting policies of the reportable segments are the same as described in notes 2 and 3. Transactions between segments, and between branches within a segment, are conducted at estimated market rates or rates agreed by management. Interest is charged or credited to branches and business segments either at contracted or pool rates, both of which approximate the replacement cost of funds.

  Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before taxation, as included in the internal management reports that are reviewed by the Group's Chief Executive. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

41 Segmental information *(continued)*

	Business Segment					Geographic Segment			
	Global Wholesale AED'000	Global Wealth AED'000	Global Retail and Commercial AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Gulf AED'000	International AED'000	Total AED'000
As at and for the year ended 31 December 2015									
Net Interest income	3,602,317	766,996	3,032,066	(94,301)	**7,307,078**	5,802,327	259,085	1,245,666	**7,307,078**
Net Non-interest income	1,519,516	283,241	1,089,280	356,735	**3,248,772**	2,554,636	94,031	600,105	**3,248,772**
Operating income	5,121,833	1,050,237	4,121,346	262,434	**10,555,850**	8,356,963	353,116	1,845,771	**10,555,850**
General administration and other operating expenses	1,337,878	437,391	2,308,472	(822)	**4,082,919**	3,271,097	168,443	643,379	**4,082,919**
Net impairment charge	606,145	33,530	508,825	(205,529)	**942,971**	799,706	(14,485)	157,750	**942,971**
Profit before taxation	3,177,810	579,316	1,304,049	468,785	**5,529,960**	4,286,160	199,158	1,044,642	**5,529,960**
Overseas taxation	157,154	76,392	64,413	184	**298,143**	(3,000)	17,306	283,837	**298,143**
Net profit for the year	3,020,656	502,924	1,239,636	468,601	**5,231,817**	4,289,160	181,852	760,805	**5,231,817**
Segment total assets	277,880,276	32,135,140	86,441,602	60,394,264	**456,851,282**	322,169,714	9,922,165	88,843,241	**420,935,120**
Inter segment balances					**(50,287,475)**				**(14,371,313)**
Total assets					**406,563,807**				**406,563,807**
Segment total liabilities	272,765,689	31,169,199	83,303,475	26,394,266	**413,632,629**	283,612,659	8,389,836	85,713,972	**377,716,467**
Inter segment balance					**(50,287,475)**				**(14,371,313)**
Total liability					**363,345,154**				**363,345,154**

41 Segmental information *(continued)*

	Business Segment					Geographic Segment			
	Global Wholesale AED'000	Global Wealth AED'000	Global Retail and Commercial AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Gulf AED'000	International AED'000	Total AED'000
As at and for the year ended 31 December 2014									
Net Interest income	3,870,044	717,652	2,424,174	6,148	**7,018,018**	5,646,828	229,595	1,141,595	**7,018,018**
Net Non-interest income	1,517,930	382,409	1,212,925	283,435	**3,396,699**	2,794,632	79,526	522,541	**3,396,699**
Operating income	5,387,974	1,100,061	3,637,099	289,583	**10,414,717**	8,441,460	309,121	1,664,136	**10,414,717**
General administration and other operating expenses	1,191,965	395,435	2,079,166	29,467	**3,696,033**	2,998,503	139,875	557,655	**3,696,033**
Net impairment charge	391,738	24,624	382,494	69,271	**868,127**	660,170	56,958	150,999	**868,127**
Profit before taxation	3,804,271	680,002	1,175,439	190,845	**5,850,557**	4,782,787	112,288	955,482	**5,850,557**
Overseas taxation	149,477	80,025	42,186	-	**271,688**	(2,598)	13,848	260,438	**271,688**
Net profit for the year	3,654,794	599,977	1,133,253	190,845	**5,578,869**	4,785,385	98,440	695,044	**5,578,869**
Segment total assets	260,181,625	32,909,290	89,769,544	47,524,730	**430,385,189**	304,362,847	9,557,187	82,642,218	**396,562,252**
Inter segment balances					**(54,286,477)**				**(20,463,540)**
Total assets					**376,098,712**				**376,098,712**
Segment total liabilities	254,395,960	31,778,483	86,246,126	20,001,238	**392,421,807**	270,481,225	8,239,620	79,878,025	**358,598,870**
Inter segment balance					**(54,286,477)**				**(20,463,540)**
Total liability					**338,135,330**				**338,135,330**

42 Earnings per share

Earnings per share is calculated by dividing the net profit for the year after deduction of Tier 1 capital notes payment by the weighted average number of ordinary shares in issue during the year as set out below:

	2015	2014
Basic earnings per share:		
Net profit for the year (AED'000)	**5,231,817**	5,578,869
Less: payment on Tier 1capital notes (AED'000)	**(201,187)**	(187,495)
Net profit after payment of Tier 1 capital notes (AED'000)	**5,030,630**	5,391,374
Weighted average number of ordinary shares:		
Ordinary shares as at 1 January of the year ('000)	**4,723,172**	4,280,470
Effect of bonus shares issued during 2015 ('000)	**472,492**	472,492
Effect of bonus shares issued during 2014 ('000)	**-**	428,212
Weighted average number of shares exercised under the share options scheme ('000)	**2,163**	8,173
Weighted average number of ordinary shares ('000)	**5,197,827**	5,189,347
Basic earnings per share (AED)	**0.97**	1.04
Diluted earnings per share:		
Net profit after payment of Tier 1 capital notes (AED'000)	**5,030,630**	5,391,374
Add: interest on convertible notes (AED'000)	**45,541**	44,547
Net profit for the year for calculating diluted earnings per share (AED'000)	**5,076,171**	5,435,921
Weighted average number of ordinary shares ('000)	**5,197,827**	5,189,347
Effect of dilutive potential ordinary shares issued ('000)	**117,655**	117,655
Weighted average number of dilutive shares under share options scheme ('000)	**5,226**	11,244
Weighted average number of ordinary shares in issue for diluted earnings per share ('000)	**5,320,708**	5,318,246
Diluted earnings per share (AED)	**0.95**	1.02

43 Fiduciary activities

The Group held assets under management in trust or in a fiduciary capacity for its customers at 31 December 2015 amounting to AED 7,285 million *(2014: AED 9,289 million)*. Furthermore, the Group provides custodian services for some of its customers.

The underlying assets held in a custodial or fiduciary capacity are excluded from these consolidated financial statements of the Group.

44 Special Purpose Entities

The Group has created Special Purpose Entities (SPEs) with defined objectives to carry on fund management and investment activities on behalf of customers. The equity and investments managed by the SPEs are not controlled by the Group and the Group does not obtain benefits from the SPEs' operations, apart from commissions and fee income. In addition, the Group does not provide any guarantees or assume any liabilities of these entities. Consequently, the SPEs' assets, liabilities and results of operations are not included in these consolidated financial statements of the Group. The SPEs are as follows:

Legal name	**Activities**	**Country of incorporation**	**Holding 2015**
One share PLC	Investment Company	Republic of Ireland	100%
NBAD Private Equity 1	Fund Management	Cayman Island	58%
NBAD (Cayman) Limited	Fund Management	Cayman Island	100%

45 Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policy changes adopted in these consolidated financial statements. These are as stated below:

During the year, the Group revisited the basis of allocation around centrally held profit & losses and other inter-segmental allocations resulting in a restatement of comparative segmental information.