Bank of Sharjah P.J.S.C.

Consolidated financial statements for the year ended 31 December 2016

Bank of Sharjah P.J.S.C.

Consolidated financial statements
for the year ended 31 December 2016

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Bank of Sharjah P.J.S.C.

Board of Directors' report

The Board has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2016.

INCORPORATION AND REGISTERED OFFICE

Bank of Sharjah P.J.S.C. (the "Bank") is a Public Joint Stock Company with Limited Liability, incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced operations under a banking license issued from United Arab Emirates Central Bank dated 26 January 1974.

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates.

PRINCIPAL ACTIVITIES

The Bank's principal activities are commercial and investment banking.

RESULTS

The profit for the year ended 31 December 2016 amounted to AED 402 million (2015: AED 250 million). The total comprehensive income for the year ended 31 December 2016 amounted to AED 213 million (2015: AED 309 million) after taking into consideration unrealised loss on revaluation of financial assets and liabilities measured at fair value through other comprehensive income and through profit or loss due to credit risk, respectively, amounting to AED 190 million (2015: gain of AED 58 million).

The detailed results are set out in the attached consolidated financial statements.

DIRECTORS

The Directors during the year were:

1. Mr. Ahmed Abdalla Al Noman (Chairman)
2. Sheikh Mohammed Bin Saud Al Qassimi
3. Sheikh Seif Bin Mohd Bin Butti Al Hamed
4. H.E. Humeid Naser Al Owais
5. Mr. Abdul Rahman Bukhatir (resigned on 10 January 2017)
6. Mr. Abdul Aziz Hassan Al Midfa
7. Mr. Abdul Aziz Mubarak Al Hassawi
8. Mr. Saud Al Besharah
9. Mr. Francois Dauge
10. Mr. Varouj Nerguizian

On behalf of the Board

Mr. Ahmed Abdalla Al Noman
Chairman
Sharjah
22 February 2017

KPMG Lower Gulf Limited
Level 13, Boulevard Plaza Tower One
Mohammed Bin Rashid Boulevard, Downtown Dubai, UAE
Tel. +971 (4) 403 0300, Fax +971 (4) 330 1515

Independent Auditors' Report

To the Shareholders of Bank of Sharjah P.J.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bank of Sharjah P.J.S.C. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Credit risk and impairment of loans and advances to customers

Refer to note 5.1(i), 9, 33 and 38 of the consolidated financial statements.

Impairment is a subjective area due to the level of judgement applied by the management in determining the impairment allowance. Due to the significance of loans and advances (representing 63% of total assets) and the related estimation uncertainty, this is considered a key audit matter.

Judgement is applied to determine appropriate parameters and assumptions used to calculate impairment. For example, the assumption of customers that will default, the valuation of collateral for secured lending and the future cash flows of corporate loan customers. In addition, we also focused on individually significant exposures that either continued to be, have become, or were at risk of being individually impaired.

Our response

Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans and advances, and evaluating the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments, and assessing the adequacy of impairment allowances for individually assessed loans.

1. For the top 10 large corporate exposures that makes a significant portion of the gross loans of the Bank, our procedures included:

   - Performing detailed credit assessments for each loan. We assessed the reasonableness of the forecast of recoverable cash flows, realisation of collateral and other possible sources of repayment. We compared key assumptions to progress against business plans and our own understanding of the relevant industries and business environment. We also compared them, where significant, to externally derived evidence such as audited accounts of the borrowers and real estate valuations for assessing the appropriateness of the collateral values held by the bank.

Key Audit Matters (continued)

Credit risk and impairment of loans and advances to customers (continued)

Our response (continued)

2. For the remaining corporate exposures, our procedures included:

   - Testing the key controls over the internal credit grading and monitoring process, to assess if the risk grades allocated to counterparties were appropriately identified and updated, on a timely basis.

   - Substantive testing of a selection of credit grades to test the appropriateness of the credit grades at a given point in time.

   - Performing credit assessments for selected loans. We assessed the reasonableness of the forecast of recoverable cash flows, realisation of collateral and other possible sources of repayment. We compared key assumptions to progress against business plans and our own understanding of the relevant industries and business environment. We also compared them, where significant, to externally derived evidence such as audited accounts of the borrowers and real estate valuations for assessing the appropriateness of the collateral values held by the bank.

3. For collective provision, our procedures included:

   - Testing the key management controls over the impact of underlying data into the models;

   - Evaluating the methodology and the key assumptions and assessing the appropriateness of the emergence period used in determining the estimate and where possible, we compare the key assumptions used to externally available industry, financial and economic data.

   - For judgemental overlays, we challenged management to provide objective evidence that the overlays were appropriate.

4. For the key underlying systems used for the processing of transactions we involved our information technology specialists to test a selection of automated controls within these systems.

5. Assessing whether the consolidated financial statement disclosures appropriately reflect the Group's exposure to credit risk.

Key Audit Matters (continued)

Valuation of Level 3 financial instruments

Refer to note 5.2(i), 10 and 40 of the consolidated financial statements.

The risk is that the valuation of financial instruments maybe misstated due to the application of valuation techniques which often involve the exercise of significant judgement and the use of assumptions and estimates.

Of the financial instruments that are held at fair value through profit or loss or as FVTOCI in the Group's statement of financial position, 83% (2015: 84%) were measured using level 3 inputs in the fair value hierarchy as at 31 December 2016.

Financial instruments are classed at Level 3 because significant pricing inputs to them are unobservable. The determination of these prices is inherently more subjective and as such due to the uncertainty in estimating some of the fair values, this is considered as a key audit matter.

Our response

Our audit procedures included:

1. The assessment of controls over the identification, measurement and management of valuation risk, evaluating the methodologies, reasonableness of inputs and assumptions used by the Group in determining fair values.

2. Assessing, for a selection of investments, key inputs, assumptions, considering alternate valuation methods used by management and supporting to key factors.

3. We compared observable inputs against independent sources and externally available market data. For significant unobservable valuation inputs, we involved our valuation specialist to critically assess the reasonableness of the assumptions and models used by the management for valuation of level 3 investments.

4. Additionally, we assessed whether the consolidated financial statements disclosures of fair value risks and sensitivities appropriately reflect the Group's exposure to valuation risk.

Other Information

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of Group's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2016 Annual Report after the date of auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we will read the Reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Report on Other Legal and Regulatory Requirements (continued)

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

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

iii) the Group has maintained proper books of account;

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

v) as disclosed in note 10 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2016;

vi) note 35 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 2016 any of the applicable provisions of the UAE Federal Law No.(2) of 2015 or in respect of the Bank, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2016; 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.

On behalf of KPMG Lower Gulf Limited

Fawzi AbuRass
Registration Number: 968
Dubai, United Arab Emirates

22 FEB 2017

Consolidated statement of financial position
As at 31 December

	Notes	2016 AED'000	2015 AED'000
ASSETS			
Cash and balances with central banks	6	4,308,887	6,436,195
Deposits and balances due from banks	7	691,673	1,072,415
Reverse-repo placements	8	639,476	-
Loans and advances, net	9	17,074,997	15,036,621
Other financial assets measured at fair value	10	1,100,834	1,214,878
Other financial assets measured at amortised cost	10	747,237	527,330
Investment properties	11	281,337	270,441
Goodwill and other intangibles	12	228,324	234,234
Other assets	13	1,750,008	2,519,598
Property and equipment	15	274,196	275,206
Total assets		27,096,969	27,586,918
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	18	19,736,917	19,491,815
Deposits and balances due to banks	19	97,789	45,479
Other liabilities	20	835,897	1,689,682
Issued bonds	21	1,826,638	1,737,498
Total liabilities		22,497,241	22,964,474
Equity			
Capital and reserves			
Share capital	22 (a)	2,100,000	2,100,000
Statutory reserve	22 (b)	1,050,000	1,050,000
Contingency reserve	22 (c)	510,000	480,000
General reserve	22 (d)	100,000	100,000
Investment fair value reserve		22,836	212,432
Retained earnings		606,035	476,485
Equity attributable to equity holders of the Bank		4,388,871	4,418,917
Non-controlling interests	17 (b)	210,857	203,527
Total equity		4,599,728	4,622,444
Total liabilities and equity		27,096,969	27,586,918

22 FEB 2017

....	....
Mr. Ahmed Abdalla Al Noman	**Mr. Varouj Nerguizian**
Chairman	**Executive Director & General Manager**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss
for the year ended 31 December

	Notes	2016 AED'000	2015 AED'000
Interest income	28	**1,054,337**	1,028,211
Interest expense	29	**(532,355)**	(480,120)
Net interest income		**521,982**	548,091
Net fee and commission income	30	**173,979**	160,113
Exchange profit		**21,046**	21,473
Income on investments	31	**9,545**	11,530
Revaluation (loss)/ gain on investment properties	11	**(66)**	4,143
Other income	32	**31,199**	87,736
Operating income		**757,685**	833,086
Net impairment loss on financial assets	33	**(62,337)**	(297,006)
Net operating income		**695,348**	536,080
General and administrative expenses	34	**(276,242)**	(267,559)
Amortisation of intangible assets	12 (b)	**(5,910)**	(7,784)
Profit before discontinued operations		**413,196**	260,737
Discontinued operations	16	**-**	(3,438)
Profit before taxes		**413,196**	257,299
Income tax expense - overseas		**(11,040)**	(6,998)
Net profit for the year		**402,156**	250,301
Attributable to:			
Equity holders of the Bank		**392,018**	243,754
Non-controlling interests		**10,138**	6,547
Net profit for the year		**402,156**	250,301
Basic and diluted earnings per share (AED)	23	**0.19**	0.12

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of profit and loss and other comprehensive income for the year ended 31 December

	2016 AED'000	2015 AED'000
Net profit for the year	**402,156**	250,301
Other comprehensive income items		
Items that will not be reclassified subsequently to consolidated statement of profit or loss:		
Net changes in fair value of financial assets measured at fair value through other comprehensive income	**(100,989)**	(33,576)
Net changes in fair value of financial liabilities measured at fair value through profit or loss due to credit risk	**(88,594)**	92,003
Other comprehensive (loss)/income for the year	**(189,583)**	58,427
Total comprehensive income for the year	**212,573**	308,728
Attributable to:		
Equity holders of the Bank	**202,422**	302,177
Non-controlling interests	**10,151**	6,551
Total comprehensive income for the year	**212,573**	308,728

The accompanying notes form an integral part of these consolidated financial statements.

Bank of Sharjah P.J.S.C.

Consolidated statement of changes in equity for the year ended 31 December

	Share capital AED'000	Treasury shares AED'000	Statutory reserve AED'000	Contingency reserve AED'000	General reserve AED'000	Investment fair value reserve AED'000	Retained earnings AED'000	Total equity attributable to owners of the parent AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at 1 January 2015	**2,100,000**	**(196,726)**	**1,050,000**	**450,000**	**100,000**	**154,009**	**543,427**	**4,200,710**	**211,949**	**4,412,659**
Profit for the year	-	-	-	-	-	-	243,754	243,754	6,547	250,301
Other comprehensive income	-	-	-	-	-	58,423	-	58,423	4	58,427
Total comprehensive income for the year	-	-	-	-	-	**58,423**	**243,754**	**302,177**	**6,551**	**308,728**
Resale of investments (Note 16)	-	-	-	-	-	-	-	-	(12,515)	(12,515)
Transactions with owners of the Group										
Treasury shares (Note 24)	-	196,726	-	-	-	-	(196,726)	-	-	-
Directors' remuneration (Note 24)	-	-	-	-	-	-	(9,970)	(9,970)	(617)	(10,587)
Charity donations (Note 24)	-	-	-	-	-	-	(2,500)	(2,500)	-	(2,500)
Transfer to contingency reserve	-	-	-	30,000	-	-	(30,000)	-	-	-
Cash dividends (Note 24)	-	-	-	-	-	-	(71,500)	(71,500)	(1,841)	(73,341)
Balance at 31 December 2015	**2,100,000**	**-**	**1,050,000**	**480,000**	**100,000**	**212,432**	**476,485**	**4,418,917**	**203,527**	**4,622,444**
Profit for the year	-	-	-	-	-	-	392,018	392,018	10,138	402,156
Other comprehensive loss	-	-	-	-	-	(189,596)	-	(189,596)	13	(189,583)
Total comprehensive income for the year	-	-	-	-	-	**(189,596)**	**392,018**	**202,422**	**10,151**	**212,573**
Transactions with owners of the Group										
Directors' remuneration (Note 24)	-	-	-	-	-	-	(9,968)	(9,968)	(617)	(10,585)
Charity donations (Note 24)	-	-	-	-	-	-	(2,500)	(2,500)	-	(2,500)
Transfer to contingency reserve	-	-	-	30,000	-	-	(30,000)	-	-	-
Treasury shares (Note 24)	-	-	-	-	-	-	(220,000)	(220,000)	-	(220,000)
Cash Dividends (Note 24)	-	-	-	-	-	-	-	-	(2,204)	(2,204)
Balance at 31 December 2016	**2,100,000**	**-**	**1,050,000**	**510,000**	**100,000**	**22,836**	**606,035**	**4,388,871**	**210,857**	**4,599,728**

The accompanying notes form an integral part of these consolidated financial statements.

Bank of Sharjah P.J.S.C.
Consolidated statement of cash flows
for the year ended 31 December

	2016 AED'000	2015 AED'000
Cash flows from operating activities		
Profit for the year	**402,156**	250,301
Adjustments for:		
Depreciation of property and equipment	**25,386**	35,064
Amortisation of other intangible assets	**5,910**	7,784
Amortisation of premium on debt instruments	**504**	162
Gain on sale of property and equipment	**(209)**	(46,189)
Net fair value gain on issued debt securities	**(4,507)**	(511)
Net fair value loss on interest rate swaps	**4,507**	511
Gain on sale of investment properties	**-**	(5,894)
Net fair value loss/ (gain) on other financial assets	**1,771**	(3,873)
Fair value loss/ (gain) on revaluation of investment properties	**66**	(4,143)
Unrealized loss on assets acquired in settlement of debts	**3,264**	-
Amortization of transaction costs on issued bonds	**6,489**	-
Net impairment loss on financial assets	**62,337**	297,006
Dividends income	**(2,798)**	(1,835)
Operating profit before changes in operating assets and liabilities	**504,876**	528,383
Changes in		
Deposits and balances due from banks maturing after three months	**(121,882)**	(175,031)
Statutory deposits with central banks	**(51,720)**	(31,016)
Loans and advances	**(2,313,687)**	(1,253,525)
Other assets	**751,328**	(706,472)
Customers' deposits	**245,102**	1,690,933
Other liabilities	**(860,238)**	8,312
Cash (used in)/generated from operating activities	**(1,846,221)**	61,584
Payment of directors' remuneration and charity donations	**(13,085)**	(13,087)
Net cash (used in)/generated from operating activities	**(1,859,306)**	48,497
Cash flows from investing activities		
Purchase of property and equipment	**(25,232)**	(37,384)
Proceeds from sale of property and equipment	**1,065**	81,370
Purchase of other financial assets	**(516,558)**	(189,058)
Proceeds from sale of investment properties	-	250,878
Additions to investment properties	**(812)**	(190,867)
Proceeds from sale of other financial assets	**305,759**	180,966
Dividends received	**2,798**	1,835
Net cash (used in)/generated from investing activities	**(232,980)**	97,740
Cash flows from financing activities		
Dividends paid	**(2,204)**	(69,441)
Issued bonds	-	1,829,498
Syndicated loan	-	(734,600)
Net cash (used in)/generated from financing activities	**(2,204)**	1,025,457
Net (decrease)/increase in cash and cash equivalents	**(2,094,490)**	1,171,694
Cash and cash equivalents at the beginning of the year	**5,110,335**	3,938,641
Cash and cash equivalents at the end of the year (Note 26)	**3,015,845**	5,110,335
	=========	=========

The accompanying notes form an integral part of these consolidated financial statements.

1 General information

Bank of Sharjah P.J.S.C. (the "Bank"), is a public joint stock company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under the Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced its operations under a banking license issued by the United Arab Emirates Central Bank dated 26 January 1974. The Bank is engaged in commercial and investment banking activities.

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates. The Bank operates through five branches in the United Arab Emirates located in the Emirates of Sharjah, Dubai, Abu Dhabi, and City of Al Ain.

The accompanying consolidated financial statements combine the activities of the Bank and its subsidiaries (collectively the "Group").

2 Application of new and revised International Financial Reporting Standards ("IFRSs")

New and revised IFRSs in issue but not yet effective and not early adopted

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
• IFRS 9 (Phase II and Phase III) includes new guidance on expected credit loss model for calculating impairment on financial assets and a new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Bank has performed a preliminary assessment of the impact of IFRS 9 'Financial Instruments' as per the instructions of the Central Bank of UAE. The Bank's focus continues to be on developing the impairment models and processes which are needed for the parallel run during 2017 in order to be fully compliant with IFRS 9. The Bank believes that once they finalize the impairment model and processes, they will be in a better position to assess the potential impact of IFRS 9 on the consolidated financial statements and any consequential effects on regulatory capital requirements.	1 January 2018
• IFRS 15 Revenue from Contracts with Customers: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2017

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

Standards and interpretation adopted for accounting periods beginning on 1 January 2016

New and revised IFRSs	Effective for annual periods beginning on or after
• IFRS 14 Regulatory Deferral Accounts issued in January 2014 specifies the financial reporting requirements for 'regulatory deferral account balance' that arise when an entity provides good or services to customers at a price or rate that is subject to rate regulation.	1 January 2016
• Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.	1 January 2016
• Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortisation.	1 January 2016
• Amendments to IFRS 11 to clarify accounting for acquisitions of *Interests in Joint Operations*.	1 January 2016
• Amendments to IAS 16 and IAS 41 require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16.	1 January 2016
• Amendments to IFRS 10 and IAS 28 clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business.	1 January 2016
• Amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity's separate financial statements.	1 January 2016
• Amendments to IFRS 10 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities.	1 January 2016
• Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.	1 January 2016

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2016 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

3 Basis of preparation

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Accounting Standard No. 34 - Interim Financial Reporting ("IAS 34") issued by the International Accounting Standards Board and also comply with the applicable requirements of the laws in the U.A.E. and U.A.E. Central Bank regulations. UAE Federal Law No 2 of 2015 ("UAE Companies Law of 2015") was issued on 1 April 2015 and has come into force on 1 July 2015. Companies are allowed to ensure compliance with the UAE Companies Law of 2015 by 30 June 2017 as per the transitional provisions contained therein. The Bank is currently in the process of implementing all changes required by the UAE Companies Law of 2015.

3.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

3.3 Functional and presentation currency

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

The principal accounting policies are set out below.

4 Summary of significant accounting policies

4.1 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank has:

- power over the investee,
- exposure, or has rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

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

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders and other parties;
- rights raising from other contractual arrangements; and

4 Summary of significant accounting policies (continued)

4.1 Basis of consolidation (continued)

- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

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

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

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

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

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to owners of the Bank.

When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to statement of profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4.2 Cash and cash equivalents

Cash and cash equivalents disclosed in the consolidated statement of cash flows consist of cash on hand, current accounts and other balances with central banks, certificate of deposits, balances with banks, and money market placements which have original maturity of less than three months from the date of acquisition.

4.3 Due from banks

Due from banks are stated at cost less any amounts written-off and allowance for impairment, if any.

4 Summary of significant accounting policies (continued)

4.4 Reverse-repo placements

Securities sold subject to a commitment to repurchase them at a predetermined price at a specified future date (repos) are continued to be recognised in the consolidated statement of financial position and a liability is recorded in respect of the consideration received under repo borrowings. The difference between sale and repurchase price is treated as interest expense using the effective interest rate yield method over the life of the agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position. Amounts placed under these agreements are included as an asset under reverse-repo placements. The difference between purchase and resale price is treated as interest income using the effective yield method over the life of the agreement.

4.5 Financial instruments

4.5.1 Initial recognition

The Group recognises a financial asset or liability in its consolidated statement of financial position only when it becomes party to the contractual provisions of that instrument.

4.5.2 Initial measurement

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of profit or loss.

4.5.3 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

For the purposes of classifying financial assets an instrument is an ‘equity instrument’ if it is a non-derivative and meets the definition of ‘equity’ for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are ‘debt instruments’.

Balances with central banks, due from banks and financial institutions, financial assets and certain items in receivables and other assets that meet the following conditions are subsequently measured at amortised cost less impairment loss and deferred income, if any (except for those assets that are designated as at fair value through profit or loss on initial recognition):

4 Summary of significant accounting policies (continued)

4.5.3 Financial assets (continued)

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Financial assets measured at amortised cost

The effective interest rate method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income over the relevant period. The effective interest rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

Income is recognised in the consolidated statement of profit or loss on an effective interest rate basis for financing and investing instruments measured subsequently at amortised cost.

Financial assets measured at FVTPL

Investments in equity instruments are classified as financial assets measured at FVTPL, unless the Group designates fair value through other comprehensive income (FVTOCI) at initial recognition.

Financial assets that do not meet the amortised cost criteria described above, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL.

Financial assets (other than equity instruments) may be designated at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

Financial assets are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met.

Reclassification of financial assets (other than equity instruments) designated as at FVTPL at initial recognition is not permitted.

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognised in the consolidated statement of profit or loss at the end of each reporting period. The net gain or loss recognised in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 40.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated statement of profit or loss when the Group's right to receive the dividends is established.

4 Summary of significant accounting policies (continued)

4.5.3 Financial assets (continued)

Financial assets measured at FVTOCI

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.
A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments fair value reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments fair value reserve is not transferred to consolidated statement of profit or loss.

Dividends on these investments in equity instruments are recognised in the consolidated statement of profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

4.6 Definition of fair value

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account when pricing the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in IAS 36.

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;

- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and

- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

4 Summary of significant accounting policies (continued)

4.7 Investment properties

Investment properties are held to earn rental income and/or capital appreciation. Investment properties include cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment properties are reported at valuation based on fair value at the end of the reporting period. The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated statement of profit or loss in the period in which these gains or losses arise.

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

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

4.8 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

	Years
Buildings	20 - 40
Furniture and office equipment	2 - 6
Installation, partitions and decorations	3 - 4
Leasehold improvements	5 - 10
Motor vehicles	3

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of other comprehensive income when incurred.

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated statement of profit or loss.

Capital work-in-progress is carried at cost, less any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group’s accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

4 Summary of significant accounting policies (continued)

4.9 Intangible assets acquired separately

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortisation is charged so as to write off the cost of intangible assets, over their estimated useful lives using the straight-line method as follows:

	Years
Banking license	Indefinite
Legal corporate setup in Lebanon	10
Customer base	10
Branch network	10

4.10 Impairment of tangible and intangibles

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangibles to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4 Summary of significant accounting policies (continued)

4.11 Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it's becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances, where the carrying amount is reduced through the use of an allowance account. When a loan is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of loans and advances measured at amortised costs are assessed by the Group as follows:

Individually assessed loans

Individually assessed loans mainly represent corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Group in accordance with the original contractual terms. Doubt about the borrower's ability to meet payment obligations generally arises when:

a) Principal and interest are not serviced as per contractual terms; and

b) When there is significant deterioration in the borrower's financial condition and the amount expected to be realised from disposal of collateral, if any, is not likely to cover the present carrying value of the loan.

Impaired loans are measured on the basis of the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

Impairment loss is calculated as the difference between the loan's carrying value and its present impaired value.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

4 Summary of significant accounting policies (continued)

4.11 Impairment of financial assets (continued)

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances calculated on:

a) Performing loans
b) Retail loans with common features and which are not individually significant.

Performing loans

Where individually assessed loans are evaluated and no evidence of loss has been identified, these loans are classified as performing loans portfolios with common credit risk characteristics based on industry, product or loan rating. Impairment covers losses which may arise from individual performing loans that are impaired at the end of the reporting period but were not specifically identified as such until sometime in the future. The estimated impairment is calculated by the Group's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Retail loans with common features and which are not individually significant

Impairment of retail loans is calculated by applying a formulaic approach which allocates progressively higher loss rates in line with the overdue instalment date.

Renegotiated loans

Retail loans, which are subject to collective impairment review and whose terms have been renegotiated, are no longer considered to be past due and consequently impaired only when the minimum required number of payments under the new arrangements has not been received and the borrower has not complied with the revised terms and conditions.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to continuous review to determine whether they remain impaired or are considered to be past due depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the loans to be moved to performing category.

Loans that are either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

4.12 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

4 Summary of significant accounting policies (continued)

4.12 Derecognition of financial assets (continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated statement of profit or loss.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments fair value reserve is not reclassified to the consolidated statement of profit or loss, but is reclassified to retained earnings within equity.

4.13 Offsetting

Financial assets and liabilities are offset and reported net in the consolidated financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either 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 by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group trading activity.

The Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

4.14 Assets acquired in settlement of debt

The Group occasionally acquires real estate and other collateral in settlement of certain loans and advances. Such real estate and other collateral are stated at the lower of the net realisable value of the loans and advances and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation are recognised in the consolidated statement of profit or loss.

4.15 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward foreign exchange contracts, interest rate swaps and currency swaps.

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

For the purpose of hedge accounting, the Group classifies hedges into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

4 Summary of significant accounting policies (continued)

4.15 Derivative financial instruments (continued)

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated statement of profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated statement of profit or loss category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated statement of profit or loss category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised in the consolidated statement of profit or loss as part of the recalculated effective interest rate over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognised immediately in the consolidated statement of profit or loss as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated statement of profit or loss in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in other comprehensive income remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated statement of profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in other comprehensive income are immediately transferred to the consolidated statement of profit or loss and classified as trading revenue/loss.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated statement of profit or loss as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-interest revenue/loss.
Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated statement of profit or loss.

4 Summary of significant accounting policies (continued)

4.16 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Group initially recognises financial liabilities such as deposits and debt securities issued on the date at which they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL where the financial liability is either held for trading or it is designated at FVTPL and measured at fair value. Determination is made at initial recognition and is not reassessed.
Financial liabilities measured at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognised in the consolidated statement of profit or loss at the end of each reporting period. The net gain or loss recognised in the consolidated statement of profit or loss. Other changes in fair value attributable to credit risk are recognized in other comprehensive income. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the Bank may transfer the cumulative gain or loss within equity. Fair value is determined in the manner described in note 40.

The Bank has elected to designate the issued bond as at FVTPL as the Bank will be managing and evaluating the performance of the issued bond alongside a group of financial assets in such a way that measuring that group at FVTPL results in more relevant information.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

De-recognition of financial liabilities

Financial liabilities are derecognised when they are extinguished - that is when the obligation specified in the contract is discharged, cancelled or expired.

4.17 Customers' deposits and syndicated loan

Customers' deposits and syndicated loan are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective interest method.

4 Summary of significant accounting policies (continued)

4.18 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 Business Combinations* are recognised at their fair values at the acquisition date; except for non-current assets (or disposal banks) that are classified as held for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated statement of profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

4.19 Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

4.20 Employees' end-of-service benefits

The Group provides end of service benefits for its expatriate employees in accordance with U.A.E. Labour Law. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

4.21 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

4 Summary of significant accounting policies (continued)

4.21 Provisions and contingent liabilities (continued)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements.

4.22 Acceptances

Acceptances are recognised as financial liabilities in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments with respect to acceptances have been accounted for as financial assets and financial liabilities.

4.23 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.

Financial guarantees 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 (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable).

4.24 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

4 Summary of significant accounting policies (continued)

4.24 Leasing (continued)

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4.25 Revenue and expense recognition

4.25.1 Interest income and expense

Interest income and interest expense are recognised in consolidated statement of profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transactions costs, fees and points paid or received that are an integral part of the effective interest rate. 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 financial liabilities measured at amortised cost calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expenses; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net income from investments.

Fair value changes on the other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit and loss (FVTPL) are presented in net trading income from foreign currencies and net income from investment securities in the consolidated statement of profit or loss.

4.25.2 Fees and commission income and expense

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

Other fees and commission income are generally recognised on an accrual basis when the related services are performed by the Group. When a loan commitment is not expected to result in the draw-down of a loan, commitment fees are recognised on a straight line basis over the commitment period.

Other fees and commission expenses are expensed as the related services are received.

4 Summary of significant accounting policies (continued)

4.25 Revenue and expense recognition (continued)

4.25.3 Dividend income

Dividend income is recognised in the consolidated statement of profit or loss when the Group's right to receive such income is established. Usually this is the ex-dividend date for equity securities.

4.26 Foreign currency transactions

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the consolidated statement of financial position date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using rate of exchange at the date of initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Foreign currency differences are generally recognised in the statement of profit or loss.

For financial assets measured at FVTPL, the foreign exchange component is recognised in the consolidated statement of profit or loss. For financial assets measured at FVTOCI any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost, the foreign exchange gains and losses are determined based on the amortised cost of the asset and are recognised in the consolidated statement of profit or loss.

4.27 Foreign operations

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not AED, are translated into the Group’s presentation currency at the rate of exchange ruling at the consolidated statement of financial position date. The results of branches, subsidiaries, joint ventures and associates whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity in the ‘foreign exchange reserve’.

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated statement of profit or loss on proportionate basis except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated statement of profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

4 Summary of significant accounting policies (continued)

4.28 Non-current assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale which should be expected to qualify for recognition as a comparable sale within one year from the date of classification.
Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

4.29 Fiduciary activities

The Group acts as trustee/manager and in other capacities that result in holding or placing of assets in a fiduciary capacity on behalf of trusts or other institutions. Such assets and income arising thereon are not included in the Group’s consolidated financial statements as they are not assets of the Group.

4.30 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas subsidiaries in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate.

4.31 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

4.32 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.
Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.
Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

5 Critical accounting judgments and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 4, the management of the Group has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

5.1 Critical accounting judgments

i. Impairment of financial assets measured at amortised cost and loans and advances

The Group's accounting policy for allowances in relation to impaired financial assets carried at amortised cost is described in Note 4. Impairment is calculated on the basis of discounted estimated future cash flows or by applying a statistical modelling on the performing unclassified loans and advances book based on market trend and historical pattern of defaults. For retail loans and advances impairment is calculated based on a formulaic approach depending on past due instalments and payments.

The allowance for loans and advances losses is established through charges to income in the form of an allowance. Increases and decreases in the allowance due to changes in the measurement of the impaired loans and advances are included in the allowance for loans and advances losses and affect the consolidated statement of profit or loss accordingly.

Loans and advances

The impairment allowance for loan losses is established through charges to the consolidated statement of profit or loss in the form of an impairment allowance for doubtful loans and advances.

Individually assessed loans

Impairment losses for individually assessed loans are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to the portfolio-based-approach.

The following factors are considered by management when determining the allowance for impairment on individual loans and advances which are significant:

- The amount expected to be realised on disposal of collateral.
- The Group's ability to enforce its claim on the collateral and the associated cost of litigation.
- The expected time frame to complete legal formalities and disposal of collateral.

The Group's policy requires quarterly review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

5 Critical accounting judgments and key sources of estimation of uncertainty (continued)

i. Impairment of financial assets measured at amortised cost and loans and advances (continued)

Collectively assessed loans

Collective assessment of allowance for impairment is made for overdue retail loans with common features which are not individually significant and performing loans which are not found to be individually impaired.

The following factors are considered by management when determining allowance for impairment for such loans:

Retail loans **-** All the loans falling under similar overdue category are assumed to carry similar credit risk and allowance for impairment is taken on a gross basis.

Other performing loans **-** The management of the Group assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the end of the reporting period.

ii. Classification of properties

In the process of classifying properties, the management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, property and equipment, and/or property held for resale. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property and equipment, and property held for resale. In making its judgment, management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, in particular, the intended usage of property as determined by the management.

iii. Fair value of investment properties and investment properties under development

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determined the amount within a range of reasonable fair value estimates. In making its judgment, the Group considered recent prices of similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices. Such estimation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

The determination of the fair value of revenue-generating properties requires the use of estimates such as future cash flows from assets (such as leasing, tenants' profiles, future revenue streams, capital values of fixtures and fittings, and the overall repair and condition of the property) and discount rates applicable to those assets. In addition, development risks (such as construction and leasing risks) are also taken into consideration when determining the fair value of investment properties under development. These estimates are based on local market conditions existing at the end of the reporting period.

iv. Useful lives of property and equipment and intangible assets

Management reviews the residual values and estimated useful lives of property and equipment and intangible assets at the end of each annual reporting period in accordance with IAS 16 and IAS 38. Management determined that current year expectations do not differ from previous estimates based on its review.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

5 Critical accounting judgments and key sources of estimation of uncertainty (continued)

5.2 Key sources of estimation of uncertainty

The key assumptions concerning the future, and other key sources of estimation of uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

i. Valuation of unquoted equity investments

The valuation of unquoted equity investments is normally based on recent market transactions done on an arm's length basis, or the fair value of another instrument that is substantially the same, or the expected cash flows discounted at current rates for similar instruments, or on other valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of the unquoted equity investments.

ii. Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management's judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure, and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

iii. Valuation of investment properties

The Group values its investment properties at fair value on the basis of market valuations prepared by an independent chartered surveyor and property consultant. The fair values were derived by using appropriate valuation methods. The valuations are based on assumptions such as comparison with sale price of land for comparable developments, plot sizes and the recent value of any expected timing of payments and receipts in short-term to long-term, which are mainly on market conditions existing at the reporting date. Therefore, any future change in the market conditions could change significantly the fair value of these properties.

All investments properties have been classified as Level 3 in the fair value hierarchy. Level 3 reconciliation has been presented in note 11.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

6 Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks is as follows:

	2016 **AED'000**	2015 AED'000
Cash on hand	**50,165**	68,370
Statutory deposits (note 6.1)	**1,138,555**	1,086,835
Current accounts	**1,011,892**	2,147,281
Certificates of deposits	**2,108,275**	3,133,709
	4,308,887	6,436,195

(b) The geographical analysis of the cash and balances with central banks is as follows:

	2016 **AED'000**	2015 AED'000
Banks abroad	**1,712,280**	1,760,984
Banks in the U.A.E.	**2,596,607**	4,675,211
	4,308,887	6,436,195

6.1 The Group is required to maintain statutory deposits with Central Bank of UAE and Central Bank of Lebanon on demand, time and other deposits as per the statutory requirements. The statutory deposits with the Central Banks are not available to finance the day to day operations of the Group. However, as per notice 4310/2008, the Central Bank of the U.A.E. has allowed banks to borrow up to 100% of their AED and US$ reserve requirement limit. As at 31 December 2016, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 534 million (31 December 2015: AED 498 million).

7 Deposits and balances due from banks

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	2016 **AED'000**	2015 AED'000
Demand	**537,573**	705,511
Time	**154,100**	366,904
	691,673	1,072,415

(b) The geographical analysis of the deposits and balances due from banks is as follows:

Banks abroad	**656,250**	723,382
Banks in the U.A.E.	**35,423**	349,033
	691,673	1,072,415

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

8 Reverse-repo placements

The analysis of the Group's repurchase agreements is as follows:

	2016 **AED'000**	2015 AED'000
Banks abroad	**121,417**	-
Banks in the U.A.E.	**518,059**	-
	639,476	-

The Bank entered into reverse-repo agreements under which bonds with fair value of AED 649 million (December 31, 2015 - Nil) were received as collateral against cash placements. The risks and rewards relating to these bonds remain with the counter parties.

9 Loans and advances, net

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

	2016 **AED'000**	2015 AED'000
Overdrafts	**7,822,091**	8,916,160
Commercial loans	**9,392,326**	6,131,020
Bills discounted	**1,096,629**	789,213
Other advances	**669,106**	995,513
Gross amount of loans and advances	**18,980,152**	16,831,906
Less: Allowance for impairment	**(1,583,551)**	(1,524,442)
Less: Interest in suspense	**(321,604)**	(270,843)
Net loans and advances	**17,074,997**	15,036,621

(b) The geographic analysis of the gross loans and advances of the Group is as follows:

	2016 **AED'000**	2015 AED'000
Loans and advances in the U.A.E.	**16,288,853**	14,222,200
Loans and advances abroad	**2,691,299**	2,609,706
	18,980,152	16,831,906

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

9 Loans and advances, net (continued)

(c) Loans and advances are stated net of allowance for impairment. The movement in the allowance during the year was as follows:

	2016 **AED'000**	2015 AED'000
At 1 January	**1,524,442**	1,347,377
Additions through collective impairment, net	**28,202**	1,510
Additions (Note 33)	**183,722**	386,490
Transfer from interest in suspense	**11,000**	-
Write-offs	**(41,549)**	(138,736)
Write-backs	**(122,266)**	(72,199)
Balance at the end of the year	**1,583,551**	1,524,442

Additions/ (reversals) through collective impairment represent the fees charged/refunded to clients upon sanctioning/renewing any facilities on the limit and allocated directly to collective impairment provision.

(d) The movement in the interest in suspense account during the year is as follows:

	2016 **AED'000**	2015 AED'000
At 1 January	**270,843**	288,004
Additions	**87,394**	102,106
Transfer to specific provision	**(11,000)**	-
Write-offs	**(21,830)**	(101,982)
Write-backs	**(3,803)**	(17,285)
Balance at the end of the year	**321,604**	270,843

9 Loans and advances, net (continued)

(e) The composition of the loans and advances portfolio by industry is as follows:

	2016 AED'000	2015 AED'000
Economic sector		
Trading	**7,267,107**	6,438,192
Services	**5,612,695**	4,683,930
Manufacturing	**2,454,930**	2,305,142
Construction	**949,431**	1,262,612
Personal loans for commercial purposes	**668,178**	502,340
Personal loans for individual purposes	**544,650**	465,339
Transport and communication	**371,605**	357,655
Financial institutions	**327,499**	189,053
Mining and quarrying	**301,727**	457,211
Government	**292,581**	109,282
Agriculture	**34,928**	22,150
Public utilities	**713**	-
Other	**154,108**	39,000
	18,980,152	16,831,906
Less: Allowance for impairment	**(1,583,551)**	(1,524,442)
Less: Interest in suspense	**(321,604)**	(270,843)
	17,074,997	15,036,621

(f) The composition of the non-performing loans and advances portfolio by industry is as follows:

	2016 AED'000	2015 AED'000
Economic sector		
Trading	**773,022**	1,177,345
Manufacturing	**141,667**	128,317
Transport and communication	**86,616**	80,382
Services	**28,741**	30,435
Personal loans for individual purposes	**15,501**	18,601
Personal loans for commercial purposes	**15,277**	14,583
Construction	**1,705**	1,764
Other	**-**	241
	1,062,529	1,451,668

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

10 Other financial assets

(a) The analysis of the Group's other financial assets is as follows:

	2016 AED'000	2015 AED'000
Other financial assets measured at fair value		
(i) Investments measured at FVTPL		
Quoted equity	**77,510**	21,500
Quoted debt securities	**-**	68,604
	77,510	90,104
(ii) Investments measured at FVTOCI		
Quoted equity	**110,314**	101,800
Unquoted equity	**913,010**	1,022,974
	1,023,324	1,124,774
Total other financial assets measured at fair value	**1,100,834**	1,214,878
Other financial assets measured at amortised cost		
Debt securities	**747,237**	527,330
Total other financial assets	**1,848,071**	1,742,208

The majority of the quoted investments are listed on the securities exchanges in the U.A.E. (Abu Dhabi Securities Exchange and Dubai Financial Market).

(b) The composition of the other financial assets by geography is as follows:

	2016 AED'000	2015 AED'000
United Arab Emirates	**397,448**	223,210
G.C.C. countries (other than U.A.E.)	**8,499**	5,754
Middle East (other than G.C.C. countries)	**1,442,017**	1,513,132
Europe	**107**	112
	1,848,071	1,742,208

(c) Other financial assets measured at FVTOCI are strategic equity investments that are not held to benefit from changes in their fair value and are not held for trading. The management believes therefore that designating these investments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments rather than fair valuing through profit and loss.

During the year ended 31 December 2015, 57.5 million shares of equity securities were acquired at an amount of AED 77.13 million.

(d) During the year ended 31 December 2016, dividends received from financial assets measured at FVTOCI amounting to AED 3 million (2015: AED 2 million) have been recognised as investment income in the consolidated statement of profit or loss.

11 Investment properties

Details of investment properties are as follows:

	Plots of land in the U.A.E. AED'000	Commercial and residential units in the U.A.E. AED'000	Total AED'000
Fair value at 1 January 2015	73,799	262,344	336,143
Transfer to property and equipment (Note 15)	-	(15,726)	(15,726)
Increase in fair value during the year	2,215	1,928	4,143
Additions/ disposals, net during the year	(39,637)	(14,482)	(54,119)
Fair value at 31 December 2015	**36,377**	**234,064**	**270,441**
Transfer from assets acquired in settlement of debt (Note 13)	-	10,150	10,150
Increase in fair value during the year	-	(66)	(66)
Additions/ disposals, net during the year	-	812	812
Fair value at 31 December 2016	**36,377**	**244,960**	**281,337**
	=========	========	========

The fair value of the Group's investment properties is estimated annually by considering recent prices for similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at these prices. In estimating the fair value of the properties, the highest and best use of the properties is their current use. As at 31 December 2016, the valuations were carried out by professional valuers not related to the Group who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued.

12 Goodwill and other intangibles

(a) The analysis of the Group's goodwill and other intangibles is as follows:

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share in the net identifiable assets, liabilities and contingent liabilities of a Lebanese branch of a multinational bank acquired in 2008.

	2016 AED'000	2015 AED'000
Goodwill	**184,733**	184,733
Other intangibles		
Banking license	**18,365**	18,365
Legal corporate setup in Lebanon	**12,887**	17,181
Customer base	**11,240**	12,489
Branch network	**1,099**	1,466
	43,591	49,501
Total	**228,324**	234,234
	=========	=========

The recoverable amount of the assets acquired in the business combination (cash generating unit) described above is determined based on fair value less cost of disposal which is determined to be higher than the asset's carrying value using the market approach.

(b) The movement on other intangible assets during the year is as follows:

Other intangibles	**Banking license AED'000**	**Legal corporate setup in Lebanon AED'000**	**Customer base AED'000**	**Branch network AED'000**	**Total AED'000**
Balance as at 1 January 2015	18,365	21,475	15,611	1,834	57,285
Amortisation in 2015	-	(4,294)	(3,122)	(368)	(7,784)
Balance as at 31 December 2015	18,365	17,181	12,489	1,466	49,501
Amortisation in 2016	-	(4,294)	(1,249)	(367)	(5,910)
Balance as at 31 December 2016	**18,365**	**12,887**	**11,240**	**1,099**	**43,591**
	=======	=======	=======	=======	=======

13 Other assets

	2016 **AED'000**	2015 AED'000
Acceptances – contra (Note 20)	**557,288**	1,441,148
Receivable from sale of investments	**200,000**	203,330
Assets acquired in settlement of debt (Note 11)	**833,730**	798,212
Clearing receivables and accrued income	**76,125**	-
Interest receivable	**23,396**	20,504
Prepayments	**13,719**	9,600
Positive fair value of derivatives (Note 14)	**1,682**	1,945
Other	**44,068**	44,859
	1,750,008	2,519,598

Assets acquired in settlement of debt amounting to AED 834 million are net of AED 3 million unrealized losses. Of this amount AED 679 million pertains to the properties and plots of lands acquired in settlement of debt. Fair valuations of the properties and plots of land were carried out by independent valuers having appropriate professional qualifications and are based on recent experience in the location and category of the properties and plots of land being valued. The fair value of those properties and plots of land as at 31 December 2016 amounted to AED 793 million.

As per UAE Central Bank regulation, the Bank can hold the real estate assets for a maximum period of three years and can extend the holding after obtaining Central Bank approval. The Bank can also rent the properties and earn rental income.

The Group reports under other assets, positive fair value of derivative contracts used by the Group in the ordinary course of business. Refer to Note 14 below for further details about the nature and type of derivative contracts utilised by the Group, together with the notional amounts and maturities.

14 Derivative financial instruments

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

The Group uses the following derivative financial instruments for both hedging and non-hedging purposes.

Forward currency transactions - Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Swap transactions - Currency swaps are commitments to exchange one set of cash flows for another. Currency swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain cross-currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. Under interest rate swaps, the Bank agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.
This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the 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.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

14 Derivative financial instruments (continued)

Derivative related credit risk - Credit risk with respect to derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The Group enters into derivative contracts with a number of financial institutions of good credit rating.

Derivatives held or issued for hedging purposes - The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange rates. The Group uses forward foreign exchange contracts to hedge exchange rate risks. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

The following table shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity, and the nature of the risk being hedged.

The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the fair value of the derivatives, nor market risk.

	Notional amounts by term to maturity					
	Positive fair value AED'000	**Negative fair value AED'000**	**Notional amount AED'000**	**Within 3 months AED'000**	**3-12 months AED'000**	**1-5 years AED'000**
2016						
Interest rate swaps	**1,672**	**(6,453)**	**1,996,257**	**159,757**	**-**	**1,836,500**
Currency swaps	**-**	**(183)**	**497,833**	**497,833**	**-**	**-**
Forward foreign exchange contracts	**10**	**(53)**	**75,972**	**42,793**	**33,179**	**-**
Total	**1,682**	**(6,689)**	**2,570,062**	**700,383**	**33,179**	**1,836,500**
2015						
Interest rate swaps	-	(511)	1,836,500	-	-	1,836,500
Currency swaps	-	(312)	463,496	463,496	-	-
Forward foreign exchange contracts	1,945	-	130,709	64,041	66,668	-
Total	1,945	(823)	2,430,705	527,537	66,668	1,836,500

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

15 Property and equipment

	Land & buildings AED'000	Furniture and office equipment AED'000	Leasehold improvements installation, partitions and decoration AED'000	Motor vehicles AED'000	Total AED'000
Cost					
At 1 January 2015	245,845	96,886	94,372	5,126	442,229
Additions	15,350	7,300	13,480	1,254	37,384
Transfer from investment properties (Note 11)	15,726	-	-	-	15,726
Disposals/ write-offs	(38,529)	(2,473)	(11,520)	(877)	(53,399)
At 31 December 2015	238,392	101,713	96,332	5,503	441,940
Additions	-	11,842	12,678	712	25,232
Eliminated on disposals	-	(7,129)	(5,284)	(1,063)	(13,476)
At 31 December 2016	**238,392**	**106,426**	**103,726**	**5,152**	**453,696**
Accumulated depreciation					
At 1 January 2015	16,473	79,052	51,042	3,321	149,888
Charge for the year	16,458	9,015	8,368	1,223	35,064
Disposals/ write-offs	(3,776)	(2,250)	(11,463)	(729)	(18,218)
At 31 December 2015	29,155	85,817	47,947	3,815	166,734
Charge for the year	5,055	10,543	8,938	850	25,386
Eliminated on disposals	-	(7,112)	(4,511)	(997)	(12,620)
At 31 December 2016	**34,210**	**89,248**	**52,374**	**3,668**	**179,500**
Net book value:					
At 31 December 2016	**204,182**	**17,178**	**51,352**	**1,484**	**274,196**
At 31 December 2015	209,237	15,896	48,385	1,688	275,206

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

16 Non-current assets classified as held for sale

In 2013, Borealis Gulf FZC a wholly owned subsidiary of the Bank has acquired with a view to reselling an 80% equity interest in two Jebel Ali Free Zone entities. The entities are in the facilities management business and the assets and associated liabilities from this acquisition transaction have been classified as held for sale. The consideration was settled by offsetting credit to the seller's overdraft and loans accounts with the Group.

In January 2015, a potential buyer has irrevocably undertaken to buy the shares of Borealis Gulf FZC in both companies within the period prior to 30 June 2015. Accordingly, the resale of the 80% equity interest in both companies was completed in June 2015.

17 Subsidiaries

a) The Bank's interests, held directly or indirectly, in the subsidiaries are as follows:

Name of Subsidiary	Proportion of ownership interest		Year of incorporation	Country of incorporation	Principal activities
	2016	2015			
Emirates Lebanon Bank S.A.L.	**80%**	80%	1965	Lebanon	Financial institution
BOS Real Estate FZC	**100%**	100%	2009	U.A.E.	Real estate development activities
BOS Capital FZC	**100%**	100%	2009	U.A.E.	Investment
Polyco General Trading L.L.C.	**100%**	100%	2008	U.A.E.	General trading
Borealis Gulf FZC	**100%**	100%	2011	U.A.E.	Investment & Real estate development activities
BOS Funding Limited	**100%**	100%	2015	Cayman Islands	Financing activities

b) Non-controlling interest:

The table below shows details of non-wholly owned subsidiaries of the Bank that have material non-controlling interests:

Name of subsidiary	Proportion of ownership interests and voting rights held by the non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	2016	2015	**2016 AED'000**	2015 AED'000	**2016 AED'000**	2015 AED'000
Emirates Lebanon Bank S.A.L.	**20 %**	20%	**10,138**	6,547	**210,857**	203,527
			=====	=====	======	=======

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

17 Subsidiaries (continued)

b) Non-controlling interest: (continued)

On 14 December 2016, the Board of Directors of the Bank decided to increase the shareholding of the Bank in Emirates Lebanon Bank S.A.L. by acquiring the remaining shares representing 20% of share capital, which is still subject to the approval of the Central Bank of Lebanon.

c) Emirates Lebanon Bank S.A.L summarised statements of financial position, comprehensive income and cash flows as at and for the years ended 31 December 2016 and 2015:

	2016	2015
	AED'000	AED'000
Statement of financial position		
Total assets	**5,834,519**	5,549,600
Total liabilities	**4,821,438**	4,531,766
Equity	**1,013,081**	1,017,834
Dividends paid to non-controlling interests	**2,204**	1,841
Statement of comprehensive income		
Interest income	**264,809**	251,050
Profit for the year	**50,692**	32,734
Total comprehensive income	**50,757**	32,756
Statement of cash flows		
Net cash flows generated from/ (used in) operating activities	**203,681**	(156,975)
Net cash flows (used in)/ generated from investing activities	**(96,203)**	53,464
Net cash flows used in financing activities	**(33,057)**	(9,183)
Net cash flows generated from/ (used in) during the year	**74,421**	(112,694)

18 Customers' deposits

The analysis of customers' deposits is as follows:

	2016	2015
	AED'000	AED'000
Current and other accounts	**4,997,698**	4,008,397
Saving accounts	**1,727,095**	1,634,738
Time deposits	**13,012,124**	13,848,680
	19,736,917	19,491,815

19 Deposits and balances due to banks

The analysis of deposits and balances due to banks is as follows:

	2016	2015
	AED'000	AED'000
Demand	**5,867**	839
Time	**91,922**	44,640
	97,789	45,479

Due to banks represent due to:

	2016	2015
	AED'000	AED'000
Banks in the U.A.E.	**4,246**	-
Banks abroad	**93,543**	45,479
	97,789	45,479

20 Other liabilities

	2016	2015
	AED'000	AED'000
Acceptances – contra (Note 13)	**557,288**	1,441,148
Accrued expenses and others	**90,997**	76,943
Interest payable	**83,962**	84,858
Provision for employees' end of service benefits (Note 20.1)	**40,597**	39,374
Unearned income	**38,325**	22,362
Managers' cheques	**18,039**	24,174
Negative fair value of derivatives (Note 14)	**6,689**	823
	835,897	1,689,682

20.1 The movement in the provision for employees' end of service benefits is as follows:

	2016	2015
	AED'000	AED'000
At 1 January	**39,374**	33,025
Charged during the year	**5,758**	7,203
Payments during the year	**(4,535)**	(854)
At 31 December	**40,597**	39,374

21. Issued bonds

On 8 June 2015, the Bank raised financing by way of USD 500 million (equivalent to AED 1,836 million) in senior unsecured bonds (the "Bonds") issued by BOS Funding Limited, a wholly owned subsidiary of the Bank, incorporated in the Cayman Islands. The Bonds are fully guaranteed by the Bank, carry a fixed interest rate of 3.374 per cent per annum payable semi-annually and are listed on the Irish Stock Exchange.

The fair value and the change in that fair value that can be ascribed to changes in underlying credit risk are set out below:

	31 December 2016 AED'000	31 December 2015 AED'000
Fair value of issued bond	**1,826,638**	1,737,498
Changes in fair value of issued bond not attributable to changes in market conditions	**(3,409)**	(92,003)
Difference between carrying amount and amount contractually required to be paid at maturity	**9,862**	99,003

The Group estimates changes in fair value due to credit risk by estimating the amount of change in fair value that is not due to changes in market conditions that give rise to market risk.

22 Capital and reserves

(a) Issued and paid up capital

	2016		2015	
	Number of shares	**AED'000**	Number of Shares	AED'000
Issued capital	**2,100,000,000**	**2,100,000**	2,100,000,000	2,100,000
	2,100,000,000	**2,100,000**	2,100,000,000	2,100,000

(b) Statutory reserve

In accordance with the Bank's Articles of Association and Article (82) of Union Law No. 10 of 1980, the Bank transfers 10% of annual profits, if any, to the statutory reserve until it is equal to 50% of the share capital. Also, in accordance with its Articles of Association and UAE Federal Law – article 192, 10% of annual profits, if any, maybe transferred to a general reserve until it is suspended by an ordinary general meeting upon a proposal by the Board of directors. The general reserve can be utilised for the purposes determined by the ordinary general meeting upon recommendations of the Board of Director.

(c) Contingency reserve

In accordance with the Articles of Association of the Bank a contingency reserve is calculated at 10% of the profit for the year to be transferred to a contingency reserve until this reserve becomes 50% of the issued and paid up capital.

22 Issued and paid up capital (continued)

(d) General reserve

Transfers to general reserve are made based on the discretion of the Board of Directors and is subject to the approval of the shareholders at the annual general meeting.

23 Earnings per share

Earnings per share are computed by dividing the profit for the year by the average number of shares outstanding during the year as follows:

	2016	2015
Basic and diluted earnings per share		
Profit attributable to owners of the Bank for the year (AED'000)	**392,018**	243,754
Profit available to the owners of the Bank	**392,018**	243,754
Weighted average number of ordinary shares:		
Ordinary shares at the beginning of the year	2,100,000	2,000,473
Effect of scrip dividend issued during the year	**-**	99,527
Weighted average number of shares outstanding during the year (in thousands shares)	2,100,000	2,083,412
Basic and diluted earnings per share (AED)	**0.19**	0.12

As at the reporting date, the diluted earnings per share is equal to the basic earnings per share as the Group has not issued any financial instruments that should be taken into consideration when the diluted earnings per share is calculated.

24 Transactions with owners and directors of the Group

Bank of Sharjah

Treasury shares
At the Annual General Meeting of the shareholders held on 30 April 2016, the shareholders approved a 5.24% treasury shares distribution (110 million shares) amounting to AED 220 million which were acquired against settlement of loans (2015: 4.98% treasury share distribution (99.5 million shares) amounting to AED 197 million). These shares were re-distributed to the existing shareholders as per their existing proportionate shareholding.

Directors' remuneration
At the Annual General Meeting of the shareholders held on 30 April 2016, the shareholders of the Bank also approved Directors' remuneration of AED 7.5 million (2014: AED 7.5 million).

Charity donations
At the Annual General Meeting of the shareholders held on 30 April 2016, the shareholders also approved charitable donations of AED 2.5 million (2014: AED 2.5 million).

24 Transactions with owners and directors of the Group (continued)

Transfer to reserves
At the Annual General Meeting of the shareholders held on 30 April 2016, the shareholders also approved the appropriation of AED 30 million (2014: AED 30 million) to contingency reserves.

Cash dividend
Nil dividend was distributed to the shareholders for 2015 (2014: 3.4% cash dividend amounting to AED 71.5 million).

Emirates Lebanon Bank

Cash dividend
At the Annual General Meeting held on 6 February 2016 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, the shareholders approved a cash dividend for an amount of AED 11.0 million (2014: cash dividend of AED 9.2 million) out of which the non-controlling interest share amounted to AED 2.2 million (2014: AED 1.8 million).

Directors' remuneration
At the Annual General Meeting held on 6 February 2016 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, approved Directors' remuneration of AED 3.1 million (2014: AED 3.1 million) out of which the non-controlling interest share amounted to AED 0.6 million (2014: AED 0.6 million).

25 Commitments and contingent liabilities

	2016 **AED'000**	2015 AED'000
Financial guarantees for loans	**424,325**	706,794
Other guarantees	**2,034,327**	2,247,582
Letters of credit	**1,223,786**	1,307,698
Capital commitments	**32,753**	44,929
	3,715,191	4,307,003
Irrevocable commitments to extend credit	**1,383,783**	1,552,812
	5,098,974	5,859,815

These contingent liabilities have off-balance sheet credit risk as only the related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash-flows.

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

Commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

25 Commitments and contingent liabilities (continued)

Letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. These contracts would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at zero or floating interest rates.

The Bank receives legal claims against it arising in the normal course of business. The Bank considers none of these matters as material either individually or in aggregate. Where appropriate, the Bank recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation. The Bank seeks to comply with all applicable laws and regulations, but may be subject to regulatory actions and investigations from time to time, the outcome of which are generally difficult to predict and can be material.

26 Cash and cash equivalents

	2016 AED'000	2015 AED'000
Cash and balances with central banks (Note 6)	**4,308,887**	6,436,195
Deposits and balances due from banks (Note 7)	**691,673**	1,072,415
Reverse-repo placements (Note 8)	**639,476**	-
Deposits and balances due to banks (Note 19)	**(97,789)**	(45,479)
	5,542,247	7,463,131
Less: Deposits and balances due from banks - original maturity more than three months	**(1,387,847)**	(1,265,961)
Less: Statutory deposits with central banks (Note 6)	**(1,138,555)**	(1,086,835)
	3,015,845	5,110,335

27 Fiduciary assets

The Group holds investments amounting to AED 0.7 billion (31 December 2015: AED 0.8 billion) which are held on behalf of customers and not treated as assets in the consolidated statement of financial position.

28 Interest income

	2016 AED'000	2015 AED'000
Loans and advances	**908,476**	907,032
Certificates of deposit and treasury bills with central banks and debt instruments	**108,698**	99,623
Net interest income on swaps	**19,120**	13,374
Placements with banks	**14,356**	8,182
Reverse-repo placements	**3,687**	-
	1,054,337	1,028,211

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

29 Interest expense

	2016 **AED'000**	2015 AED'000
Customers' deposits	**462,620**	426,711
Issued bonds	**61,964**	34,768
Interest on cash contribution towards capital due to non-controlling interests	**6,611**	6,611
Banks' deposits	**1,160**	12,030
	532,355	480,120

30 Net fee and commission income

	2016 **AED'000**	2015 AED'000
Corporate banking credit related fees	**97,774**	59,765
Trade finance activities	**42,383**	62,554
Letters of guarantee	**28,596**	33,863
Other	**5,226**	3,931
	173,979	160,113

31 Income on investments

	2016 **AED'000**	2015 AED'000
Dividends	**2,798**	1,835
Realized and unrealized gain on investments measured at FVTPL	**752**	3,873
Other investment income	**5,995**	5,822
	9,545	11,530

32 Other income

	2016 **AED'000**	2015 AED'000
Income on sale of fixed assets	**209**	46,189
Rental income and others	**30,990**	41,547
	31,199	87,736

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

33 Net impairment loss on financial assets

	2016 AED'000	2015 AED'000
Collective impairment of loans and advances	**33**	67,500
Specific provision of loans and advances	**183,689**	318,990
Direct write-off	**1,113**	-
Total charge for the year (Note 9)	**184,835**	386,490
Write backs	**(122,498)**	(89,484)
	62,337	297,006

34 General and administrative expenses

	2016 AED'000	2015 AED'000
Salaries and employees related expenses	**166,666**	159,640
Depreciation on property and equipment (Note 15)	**25,386**	35,064
Rent leases	**19,395**	12,069
Consultancy and expert fees	**7,752**	7,034
Others *	**57,043**	53,752
	276,242	267,559

*Others include an amount of AED 7.1 million representing social contributions made during the year ended 31 December 2016.

35 Related party transactions

The Group enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

Transactions within the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

The related parties balances included in the consolidated statement of financial position and the significant transactions with related parties are as follows:

	2016 AED'000	2015 AED'000
Loans and advances	**2,273,609**	2,162,402
Letters of credit, guarantee and acceptances	**284,170**	389,072
	2,557,779	2,551,474
Collateral deposits	**233,393**	169,941
Net exposure	**2,324,386**	2,381,533
Other deposits	**112,512**	120,235

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

35 Related party transactions (continued)

As at 31 December 2016, entities related to one of the directors accounted for 69% (31 December 2015: 74%) of the total aforementioned net exposure mainly on account of the fact that the director reduced his gross exposure during the year. Subsequent to 31 December 2016, there was a significant reduction in the exposure by 48% for which the accounting impact will be adjusted in 2017.

	2016	2015
	AED'000	AED'000
Interest income	**99,881**	132,337
	=========	=========
Interest expense	**10,657**	9,558
	=========	=========

Compensation of Directors and key management personnel:

	2016	2015
	AED'000	AED'000
Short term benefits	**22,447**	18,721
Directors fees	**8,117**	8,117
End of service benefits	**3,452**	3,028
Total compensation as at 31 December	**34,016**	29,866
	=========	=========

No impairment loss has been recognised against balances outstanding with key management personnel and other related parties.

36 Segmental information

36.1 IFRS 8 *Operating Segments*

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

36.2 Products and services from which reportable segments derive their revenues

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is specifically focused on the type of business activities undertaken as a Group. For operating purposes, the Group is organised into two major business segments:

(i) Commercial Banking, which principally provides loans and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and
(ii) Investment Banking, which involves the management of the Group's investment portfolio.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

36 Segmental information (continued)

36.2 Products and services from which reportable segments derive their revenues (continued)

The following table presents information regarding the Group's operating segments for the year ended 31 December 2016:

	Commercial banking AED'000	Investment banking AED'000	Unallocated AED'000	Total AED'000
Operating income				
- Net interest income	487,948	34,034	-	521,982
- Net fee and commission income	173,979	-	-	173,979
- Exchange profit	21,046	-	-	21,046
- Investment income	-	9,545	-	9,545
- Revaluation (loss) on investment properties	-	(66)	-	(66)
- Other income	-	-	31,199	31,199
Total operating income	**682,973**	**43,513**	**31,199**	**757,685**
Other material non-cash items				
- Net impairment charge on financial assets	(62,337)	-	-	(62,337)
- Depreciation of property and equipment	-	-	(25,386)	(25,386)
- General and administrative expenses	(213,227)	(37,629)	-	(250,856)
- Amortization of intangible assets	(5,910)	-	-	(5,910)
- Income tax expenses – overseas	-	-	(11,040)	(11,040)
Net profit for the year	**401,499**	**5,884**	**(5,227)**	**402,156**
Segment assets	**22,592,369**	**3,237,684**	**1,266,916**	**27,096,969**
Segment liabilities	**20,391,994**	**1,826,638**	**278,609**	**22,497,241**

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

36 Segmental information (continued)

36.2 Products and services from which reportable segments derive their revenues (continued)

The following table presents information regarding the Group's operating segments for the year ended 31 December 2015:

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
Operating income				
- Net interest income	537,955	10,136	-	548,091
- Net fee and commission income	160,113	-	-	160,113
- Exchange profit	21,473	-	-	21,473
- Investment income	-	11,530	-	11,530
- Revaluation gain on investment properties	-	4,143	-	4,143
- Other income	-	-	87,736	87,736
Total operating income	**719,541**	**25,809**	**87,736**	**833,086**
Other material non-cash items				
- Net impairment charge on financial assets	(297,006)	-	-	(297,006)
- Depreciation of property and equipment	-	-	(35,064)	(35,064)
- General and administrative expenses	(197,621)	(34,874)	-	(232,495)
- Amortization of intangible assets	(7,784)	-	-	(7,784)
- Income tax expenses – overseas	-	-	(6,998)	(6,998)
- Discontinued operations	-	(3,438)	-	(3,438)
Net profit for the year	**217,130**	**(12,503)**	**45,674**	**250,301**
Segment assets	**23,211,903**	**3,224,689**	**1,150,326**	**27,586,918**
Segment liabilities	**20,978,441**	**1,737,498**	**248,535**	**22,964,474**

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2015: Nil). Transactions between segments, inter-segment cost of funds and allocation of expenses are not determined by management for resource allocation purpose. The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4.

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments except for property and equipment, goodwill and other intangibles and certain amounts included in other assets; and
- All liabilities are allocated to reportable segments except for certain amounts included in other liabilities.

36 Segmental information (continued)

36.3 Geographical information

The Group operates in two principal geographical areas - United Arab Emirates (country of domicile) and Lebanon (referred to as 'foreign').

The Group's operating income and information about its non-current assets by geographical location are detailed below:

2016	**Country of domicile AED'000**	**Foreign AED'000**	**Total AED'000**
Operating income	**631,524**	**126,161**	**757,685**
Non-current assets	**1,609,434**	**291,018**	**1,900,452**
2015			
Operating income	732,320	100,766	833,086
Non-current assets	1,566,425	291,905	1,858,330

36.4 Information about major customers

In 2016, one customer accounted for more than 10% of the Group's net operating income (2015: two customers accounted for more than 10% of the Group's net operating income, each).

37 Classification of financial assets and liabilities

(a) 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 2016:

	FVTPL AED'000	**FVTOCI AED'000**	**Amortised cost AED'000**	**Total AED'000**
Financial assets:				
Cash and balances with central banks	-	-	**4,308,887**	**4,308,887**
Deposits and balances due from banks	-	-	**691,673**	**691,673**
Reverse-repo placements	-	-	**639,476**	**639,476**
Loans and advances, net	-	-	**17,074,997**	**17,074,997**
Other financial assets measured at fair value	**77,510**	**1,023,324**	-	**1,100,834**
Other financial assets measured at amortised cost	-	-	**747,237**	**747,237**
Other assets	**1,682**	-	**900,877**	**902,559**
Total	**79,192**	**1,023,324**	**24,363,147**	**25,465,663**
Financial liabilities:				
Customers' deposits	-	-	**19,736,917**	**19,736,917**
Deposits and balances due to banks	-	-	**97,789**	**97,789**
Other liabilities	**6,453**	-	**750,525**	**756,978**
Issued Bonds	**1,826,638**	-	-	**1,826,638**
Total	**1,833,091**	-	**20,585,231**	**22,418,322**

37 Classification of financial assets and liabilities (continued)

(b) 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:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	6,436,195	6,436,195
Deposits and balances due from banks	-	-	1,072,415	1,072,415
Loans and advances, net	-	-	15,036,621	15,036,621
Other financial assets measured at fair value	90,104	1,124,774	-	1,214,878
Other financial assets measured at amortised cost	-	-	527,330	527,330
Other assets	1,945	-	1,709,834	1,711,779
Total	92,049	1,124,774	24,782,395	25,999,218
Financial liabilities:				
Customers' deposits	-	-	19,491,815	19,491,815
Deposits and balances due to banks	-	-	45,479	45,479
Other liabilities	823	-	1,627,123	1,627,946
Issued Bonds	1,737,498	-	-	1,737,498
Total	1,738,321	-	21,164,417	22,902,738

38 Risk management

The Group has Senior Management committees to oversee the risk management. The Executive Committee and the Board Risk Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit risk. It also sets policies, system and limits for interest rate risk, foreign exchange risk, and liquidity risk. The Group also has a Credit Risk function which independently reviews adherence to all risk management policies and processes. The Group's internal audit function, which is part of risk review, primarily evaluates the effectiveness of the controls addressing operational risk.

Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and by limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counter-parties to mitigate credit risk.

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

38 Risk management (continued)

Credit risk management (continued)

Policies relating to credit are reviewed and approved by the Group's Executive Committee. All credit lines are approved in accordance with the Group's credit policy set out in the Credit Policy Manual. Credit and marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Group further limits risk through diversification of its assets by economic and industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Risk and facilities are risk graded based on criterion established in the Credit Policy Manual.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Group's Executive Committee and are monitored by the Senior Management on a daily basis.

The Executive Committee is responsible for setting credit policy of the Group. It also establishes industry caps, approves policy exceptions, and conducts periodic portfolio reviews to ascertain portfolio quality.

Commercial/Institutional lending underwriting

All credit applications for Commercial and Institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group inherently risky and where industry knowledge specialisation is required. In addition, the Group sets credit limits for all customers based on their creditworthiness.

All credit facilities extended by the Group are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the Executive Committee or the Group's Executive Director and General Manager under the supervision of the Board. At least two signatures are required to approve any commercial or institutional credit application.

Credit review procedures and loan classification

The Group's Credit Risk department subjects the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the U.A.E. and the Group's internal policies in order to assist in the early identification of accrual and potential performance problems. The Credit Risk department validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and industry and monitors observance of all approved credit policies, guidelines and operating procedures across the Group.

All commercial/institutional loan facilities of the Group are assigned one of nine risk ratings (A-I) where A is being excellent and I being loss with no reimbursement capacity and total provisioning.

If a Loan is impaired, interest suspended will not be credited to the consolidated statement of profit or loss. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

The Group also complies with IAS 39 in accordance with which it assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan.

38 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk

	Loans and advances to customers	
	2016	2015
	AED'000	AED'000
Carrying amount		
Individually impaired		
Grade (G-I) - gross amount	**1,062,529**	1,451,668
Neither past due nor impaired		
Grade A	**1,755,175**	93,434
Grade B	**10,502,173**	8,934,128
Grade C	**2,093,175**	2,900,980
Grade D	**1,509,602**	2,148,505
Grade E	**1,111,043**	654,853
Grade F	**333,260**	122,144
	18,366,957	16,305,712
Past due but not impaired	**613,195**	526,194
Total carrying amount	**18,980,152**	16,831,906
Allowance for impairment (including interest in suspense)	**(1,905,155)**	(1,795,285)
Net carrying amount	**17,074,997**	15,036,621

Credit quality per class of financial assets

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

	Neither past due nor impaired				
	High grade	**Standard grade**	**Watch-list grade**	**Past due or individually impaired**	**Total**
	2016	**2016**	**2016**	**2016**	**2016**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Balances with Central Banks	**4,258,722**	**-**	**-**	**-**	**4,258,722**
Deposits and balances due from banks	**686,685**	**4,988**	**-**	**-**	**691,673**
Reverse-repo placements	**639,476**	**-**	**-**	**-**	**639,476**
Investments in debt securities	**747,237**	**-**	**-**	**-**	**747,237**
Loans and advances, (gross)	**1,755,175**	**14,104,950**	**1,444,303**	**1,675,724**	**18,980,152**
Other assets	**-**	**1,550,008**	**-**	**200,000**	**1,750,008**

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

38 Risk management (continued)

Credit risk management (continued)

	Neither past due nor impaired				
	High grade	**Standard grade**	**Watch-list grade**	**Past due or individually impaired**	**Total**
	2015	**2015**	**2015**	**2015**	**2015**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Balances with Central Banks	6,367,825	-	-	-	6,367,825
Deposits and balances due from banks	558,016	514,399	-	-	1,072,415
Investments in debt securities	595,934	-	-	-	595,934
Loans and advances, (gross)	93,434	13,983,613	776,997	1,977,862	16,831,906
Other assets	-	2,319,598	-	200,000	2,519,598

The risk classification of loans and advances

	2016	2015
	AED'000	AED'000
Performing loans	**15,997,329**	13,166,537
Other loans exceptionally monitored	**1,920,294**	2,213,701
Non-performing loans	**1,062,529**	1,451,668
	18,980,152	16,831,906
Less: Allowance for impairment	**(1,583,551)**	(1,524,442)
Less: Interest in suspense	**(321,604)**	(270,843)
	17,074,997	15,036,621

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

38 Risk management (continued)

Credit risk management (continued)

	Notes	**2016**	2015
		AED'000	AED'000
Balances with Central Banks	6	**4,258,722**	6,367,825
Deposits and balances due from banks	7	**691,673**	1,072,415
Reverse-repo placements	8	**639,476**	-
Loans and advances , net	9	**17,074,997**	15,036,621
Investments in debt securities	10	**747,237**	595,934
Other assets *(excluding prepayments& assets acquired in settlement of debts)*		**927,584**	1,741,364
Total		**24,339,689**	24,814,859
Letters of credit	25	**1,223,786**	1,307,698
Guarantees	25	**2,458,652**	2,954,376
Undrawn loan commitments	25	**1,383,783**	1,552,812
Total		**5,066,221**	5,814,886
Total credit risk exposure		**29,405,910**	30,629,745

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

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

	Less than 30 days	**31 to 89 days**	**More than 90 days**	**Total**
	2016	**2016**	**2016**	**2016**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Loans and advances	**232,034**	**151,259**	**229,902**	**613,195**

	Less than 30 days	**31 to 89 days**	**More than 90 days**	**Total**
	2015	**2015**	**2015**	**2015**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Loans and advances	356,143	46,236	123,815	526,194

Collaterals held against loans and advances

The fair value of the collateral that the Group held at 31 December 2016 for past due but not impaired loans and advances to customers covers 112% (2015: 127%) of the outstanding balance. For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that is held against.

38 Risk management (continued)

Credit risk management (continued)

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

	2016	2015
	AED'000	AED'000
Loans and advances	**1,519,626**	1,109,691

Impaired loans

Impaired loans are loans for which the Group determines that it is likely the collectability of all principal and interest due according to the contractual terms of the loan/securities agreement(s) would be doubtful. These loans are graded G to I in the Group's internal credit risk grading system.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for group of homogeneous assets with respect to losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Group writes off a loan/security balance (and any related allowances for impairment losses) when the Group determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Group holds collateral against loans and advances in the form of mortgage interests over properties, vehicles and machineries, cash margins, fixed deposits, guarantees and others. The Group accepts guarantees mainly from well-reputed local or international banks, well-established local or multinational corporate and high net worth private individuals. Management has estimated the fair value of collateral to be AED 13.4 billion (2015: AED 12.2 billion). The fair value of the collateral includes cash deposits which are not under lien and the Group has right to set-off against the outstanding facilities.

No collateral are held against investment securities.

Concentration risk arises when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group measure its exposure to credit risk by reference to gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

Concentration of credit risk by industrial sector for loans and advances are presented in notes 9e and 9f. Concentration of credit risk by geographical distribution of loans and advances and financial investments is set out in note 9b and 10b.

38 Risk management (continued)

Liquidity risk management

Executive Committee (EC) & Board Risk Committee (BRC)

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

In addition to its credit related activity, the Executive Committee along with the Board Risk Committee have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. The EC and BRC review liquidity ratios; asset and liability structure; interest rate and foreign exchange exposures; internal and statutory ratio requirements; funding gaps; and general domestic and international economic and financial market conditions. The EC & BRC formulate liquidity risk management guidelines for the Group's operation on the basis of such review.

The Group's Senior Management monitors the liquidity on a daily basis and uses an interest rate simulation model to measure and monitor interest rate sensitivity and varying interest rate scenarios.

The EC members comprise of the Chairman, three Board Members, in addition to the Executive Director and General Manager. The EC meets once or more every 45 days, as circumstances dictate. The quorum requires all members to be present at the meeting and decisions taken to be unanimous.

The Group manages its liquidity in accordance with U.A.E. Central Bank requirements and the Group's internal guidelines. The U.A.E. Central Bank sets cash ratio requirements on overall deposits ranging between 1.0 percent for time deposits and 14.0 percent for demand deposits, according to the tenor of the deposits. The U.A.E. Central Bank also imposes a mandatory 1:1 utilisation ratio, whereby; loans and advances (combined with inter-bank placements having a remaining term of 'greater than three months') should not exceed stable funds as defined by the U.A.E. Central Bank. Stable funds are defined by the U.A.E. Central Bank to mean free-own funds, inter-bank deposits with a remaining term of more than six months, and stable customer deposits. To guard against liquidity risk, the Group diversifies its funding sources and manages its assets with liquidity in mind, seeking to maintain a preferable proportion between cash, cash equivalent, and readily marketable securities. The Board Risk Committee sets and monitors liquidity ratios and regularly revises and updates the Group's liquidity management policies to ensure that the Group would be in a position to meet its obligations as they fall due. Management of liquidity risk within the parameters prescribed by the Board Risk Committee has been delegated to an Asset and Liability Committee (ALCO) comprising the Deputy General Manager and senior executives from treasury, finance, corporate credit, and investment departments.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or potential damage to the Group's reputation.

The Treasury department communicates with other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury maintains a portfolio of short-term liquid assets to ensure liquidity is maintained within the Group's operations as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is performed under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board Risk Committee. The Daily Position sheet, which reports the liquidity and exchange positions of the Group is reviewed by Senior Management. A summary report, including any exceptions and remedial action taken, is submitted to the Board Risk Committee.

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

38 Risk management (continued)

Liquidity risk management (continued)

The maturity profile of the assets and liabilities at 31 December 2016 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Undated AED'000	Total AED'000
Assets					
Cash and balances with central banks	**2,911,388**	**342,643**	**1,040,326**	**14,530**	**4,308,887**
Deposits and balances due from banks	**691,673**	**-**	**-**	**-**	**691,673**
Reverse-repo placements	**639,476**	**-**	**-**	**-**	**639,476**
Loans and advances, net	**7,789,131**	**2,353,076**	**6,927,295**	**5,495**	**17,074,997**
Other financial assets measured at fair value	**77,510**	**-**	**-**	**1,023,324**	**1,100,834**
Other financial assets measured at amortised cost	**48,662**	**116,276**	**575,094**	**7,205**	**747,237**
Investment properties	**-**	**-**	**-**	**281,337**	**281,337**
Goodwill and other intangibles	**-**	**-**	**-**	**228,324**	**228,324**
Other assets	**532,306**	**5,480**	**1,206,852**	**5,370**	**1,750,008**
Property and equipment	**-**	**-**	**-**	**274,196**	**274,196**
Total assets	**12,690,146**	**2,817,475**	**9,749,567**	**1,839,781**	**27,096,969**
Liabilities and equity					
Customers' deposits	**15,283,556**	**4,182,282**	**271,079**	**-**	**19,736,917**
Deposits and balances due to banks	**97,789**	**-**	**-**	**-**	**97,789**
Other liabilities	**790,204**	**45,693**	**-**	**-**	**835,897**
Issued Bonds	**-**	**-**	**1,826,638**	**-**	**1,826,638**
Equity	**-**	**-**	**-**	**4,599,728**	**4,599,728**
Total liabilities and equity	**16,171,549**	**4,227,975**	**2,097,717**	**4,599,728**	**27,096,969**
Net liquidity gap	**(3,481,403)**	**(1,410,500)**	**7,651,850**	**(2,759,947)**	**-**

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

38 Risk management (continued)

Liquidity risk management (continued)

The maturity profile of the assets and liabilities at 31 December 2015 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Undated AED'000	Total AED'000
Assets					
Cash and balances with central banks	5,170,234	36,730	1,229,231	-	6,436,195
Deposits and balances due from banks	839,742	232,673	-	-	1,072,415
Loans and advances, net	9,221,352	1,568,863	4,246,406	-	15,036,621
Other financial assets measured at fair value	21,500	68,604	-	1,124,774	1,214,878
Other financial assets measured at amortised cost	27,510	20,228	471,817	7,775	527,330
Investment properties	-	-	-	270,441	270,441
Goodwill and other intangibles	-	-	-	234,234	234,234
Other assets	1,486,039	2,521	1,025,349	5,689	2,519,598
Property and equipment	-	-	-	275,206	275,206
Total assets	16,766,377	1,929,619	6,972,803	1,918,119	27,586,918
Liabilities and equity					
Customers' deposits	14,895,061	4,333,640	263,114	-	19,491,815
Deposits and balances due to banks	45,479	-	-	-	45,479
Other liabilities	1,596,749	40,571	52,362	-	1,689,682
Issued Bonds	-	-	1,737,498	-	1,737,498
Equity	-	-	-	4,622,444	4,622,444
Total liabilities and equity	16,537,289	4,374,211	2,052,974	4,622,444	27,586,918
Net liquidity gap	229,088	(2,444,592)	4,919,829	(2,704,325)	-

38 Risk management (continued)

Market risk management

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into trading, or non-trading /banking book.

a) Market risk - trading book

The Executive Committee has set limits for acceptable level of risks in managing the trading book. The Group maintains a well-diversified portfolio. In order to manage the market risk in the trading book, the Group carries a limited amount of market risk based on the policy preference and this is continuously monitored by Senior Management. Proprietary trading for the account of the Group is managed by a proprietary trading limit with a stop-loss limit.

The Group's trading book mainly comprises of equity instruments in companies listed on the U.A.E. exchanges. As such, the market risk in the trading book is limited to equity price risk.

Equity price risk refers to the risk of a decrease in the fair values of equities in the Group's trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's equity investments held in the trading book due to a reasonable possible change in U.A.E. equity indices, with all other variables held constant is as follows:

	31 December 2016		31 December 2015	
Market indices	**Change in equity price %**	**Effect on income AED'000**	Change in equity price %	Effect on income AED'000
Global stock markets	**+1%**	**775**	+1%	901
Global stock markets	**-1%**	**(775)**	-1%	(901)

b) Market risk - non-trading or banking book

Market risk on non-trading or banking positions mainly arises from the interest rate, foreign currency exposures and equity price changes.

i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Group uses simulation-modelling tools to periodically measure and monitor interest rate sensitivity. The results are monitored and analysed by the Senior Management. Since most of the Group's financial assets and liabilities are floating rate, deposits and loans generally re-price simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Group's assets and liabilities will be re-priced within one year or less, thereby further limiting interest rate risk.

Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

38 Risk management (continued)

i) Interest rate risk (continued)

The Group's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2016 was as follows:

	Weighted Average Effective Rate	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with central banks	0.77%	1,826,953	34,111	832,801	1,615,022	4,308,887
Deposits and balances due from banks	0.80%	363,873	-	-	327,800	691,673
Reverse-repo placements	0.73%	639,476	-	-	-	639,476
Loans and advances, net	5.90%	16,802,237	89,437	10,822	172,501	17,074,997
Other financial assets - Equity instruments		-	-	-	1,100,834	1,100,834
Other financial assets - Debt securities	4.64%	55,973	289,633	396,074	5,557	747,237
Investment properties		-	-	-	281,337	281,337
Goodwill and other intangibles		-	-	-	228,324	228,324
Other assets		-	-	-	1,750,008	1,750,008
Property and equipment, net		-	-	-	274,196	274,196
Total assets		19,688,512	413,181	1,239,697	5,755,579	27,096,969
Liabilities and equity						
Customers' deposits	2.40%	10,925,840	4,218,807	98,033	4,494,237	19,736,917
Deposits and balances due to banks	1.96%	92,220	-	-	5,569	97,789
Other liabilities		-	-	-	835,897	835,897
Issued Bonds	3.73%	-	-	1,826,638	-	1,826,638
Equity		-	-	-	4,599,728	4,599,728
Total liabilities and equity		11,018,060	4,218,807	1,924,671	9,935,431	27,096,969
On statement of financial position gap		8,670,452	(3,805,626)	(684,974)	(4,179,852)	-
Cumulative interest rate sensitivity gap		8,670,452	4,864,826	4,179,852	-	-

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

38 Risk management (continued)

i) Interest rate risk (continued)

The Group's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2015 was as follows:

	Weighted Average Effective Rate	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with central banks	0.98%	2,907,889	-	795,818	2,732,488	6,436,195
Deposits and balances due from banks	0.09%	230,181	-	-	842,234	1,072,415
Loans and advances, net	6.22%	14,823,009	152,626	18,324	42,662	15,036,621
Other financial assets - Equity instruments	-	-	-	-	1,214,878	1,214,878
Other financial assets - Debt securities	6.08%	36,767	27,207	457,162	6,194	527,330
Investment properties	-	-	-	-	270,441	270,441
Goodwill and other intangibles	-	-	-	-	234,234	234,234
Other assets	-	-	-	-	2,519,598	2,519,598
Property and equipment	-	-	-	-	275,206	275,206
Total assets		17,997,846	179,833	1,271,304	8,137,935	27,586,918
Liabilities and equity						
Customers' deposits	2.20%	11,869,108	4,204,849	270,576	3,147,282	19,491,815
Deposits and balances due to banks	1.73%	15,529	-	-	29,950	45,479
Other liabilities	-	-	-	-	1,689,682	1,689,682
Issued Bonds	3.37%	-	-	1,737,498	-	1,737,498
Equity	-	-	-	-	4,622,444	4,622,444
Total liabilities and equity		11,884,637	4,204,849	2,008,074	9,489,358	27,586,918
On statement of financial position gap		6,113,209	(4,025,016)	(736,770)	(1,351,423)	-
Cumulative interest rate sensitivity gap		6,113,209	2,088,193	1,351,423	-	-

Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

38 Risk management (continued)

i) Interest rate risk (continued)

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument, excluding non-interest bearing items. The rate is a historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or for an instrument carried at fair value.

The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Group's consolidated statement of profit or loss or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2016, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at 31 December 2016 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in AED thousands.

2016 **Currency**	**Increase in basis**	**Sensitivity of interest income**	**Sensitivity of equity**
AED	**+25**	**12,222**	**12,222**
USD	**+25**	**(826)**	**(826)**
Others	**+25**	**(421)**	**(421)**
AED	**-25**	**(12,222)**	**(12,222)**
USD	**-25**	**826**	**826**
Others	**-25**	**421**	**421**

2015 Currency	Increase in basis	Sensitivity of interest income	Sensitivity of equity
AED	+25	10,877	10,877
USD	+25	(5,369)	(5,369)
Others	+25	(257)	(257)
AED	-25	(10,877)	(10,877)
USD	-25	5,369	5,369
Others	-25	257	257

38 Risk management (continued)

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging instruments are also used to ensure that positions are maintained within the limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, in the normal course of business the Group takes on foreign currency exposures to finance its client's activities. The Executive Committee sets the limits on the level of exposure by currency for both overnight and intra-day positions, which are closely monitored by Senior Management. As at 31 December 2016, the Group's net currency position was not material, and all the positions were within limits approved by the Executive Committee.

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

The table below shows the foreign currencies to which the Group has a significant exposure to:

	2016 AED'000 equivalent long (short)	2015 AED'000 equivalent long (short)
Euro	**119**	167

The analysis below calculates the effect of a possible movement of the currency rate against AED, with all other variables held constant, on the consolidated statement of profit or loss (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated statement of profit or loss or equity; whereas a negative effect shows a potential net reduction in consolidated statement of profit or loss or equity.

(AED'000)

Currency exposure as at 31 December 2016	**Change in currency rate in %**	**Change on net profit**	**Change on Equity**
EUR	**+5%**	**6**	**6**
EUR	**-5%**	**(6)**	**(6)**

(AED'000)

Currency exposure as at 31 December 2015	Change in currency rate in %	Change on net profit	Change on Equity
EUR	+5%	8	8
EUR	-5%	(8)	(8)

38 Risk management (continued)

iii) Equity price risk

Equity price risk refers to the risk of a decrease in the fair value of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's quoted equity investments held as financial assets at FVTOCI due to reasonable possible change in equity prices, with all other variables held constant is as follows:

	31 December 2016		31 December 2015	
Market indices	**Change in equity price %**	**Effect on equity AED'000**	Change in equity price %	Effect on equity AED'000
Global stock markets	**+1%**	**1,103**	+1%	1,018
Global stock markets	**-1%**	**(1,103)**	-1%	(1,018)

Operational risk

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

39 Capital adequacy and capital management

Capital management process

The Group's objectives when managing capital, which is a broader concept than the 'equity' in the consolidated statement of financial positions, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the authority on a quarterly basis.

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

39 Capital adequacy and capital management (continued)

Capital management process (continued)

The U.A.E. Central Bank vide its circular No.27/2009 dated 17 November 2009 informed all the Banks operating in the U.A.E. to implement the Standardised Approach of Basel II from the date of the circular. For credit and market risks, the Central Bank has issued draft guidelines for implementation of the Standardised Approach and banks are expected to comply and report under Pillar 2- Internal Capital Adequacy Assessment Process (ICAAP) requirements by March 2010. For operational risk, the Central Bank has given banks the option to use the Basic Indicators Approach or the Standardised Approach and the Group has chosen to use the Basic Indicator Approach. The capital adequacy ratio required under Basel II is 12% to be maintained at all times.

The ratios calculated in accordance with Basel II are as follows:

	Basel II	
	2016	2015
	AED'000	AED'000
Tier 1 capital		
Share capital	**2,100,000**	2,100,000
Statutory reserve	**1,050,000**	1,050,000
Contingency and general reserves	**610,000**	580,000
Retained earnings	**606,035**	476,485
Non-controlling interest in equity of subsidiaries	**210,857**	203,527
Goodwill and other intangibles	**(228,324)**	(234,234)
	4,348,568	4,175,778
Tier 2 capital		
Collective impairment allowance on loans and advances	**235.383**	246,831
Cumulative change in fair value	**10,276**	95,594
	245,659	342,425
Total regulatory capital	**4,594,227**	4,518,203
Risk-weighted assets:		
Credit risk	**18,830,611**	19,746,453
Market risk	**171,177**	131,933
Operational risk	**1,484,159**	1,502,954
Total risk-weighted assets	**20,485,947**	21,381,340
Capital adequacy ratio	**22.43%**	21.13%

40 Fair value of financial instruments

Investments held at fair value through profit and loss

Investments held for trading or designated at fair value through profit and loss represent investment securities that present the Group with opportunity for returns through dividend income, trading gains and capital appreciation. Including in these investment listed equity securities for which the fair values are based on quoted prices at close of business as of 31 December 2016, and unlisted bonds for which the fair values are derived from internal valuation performed based on generally accepted pricing models, all inputs used for the valuation are supposed by observable market prices or rates.

Unquoted investments held at fair value through other comprehensive income

The consolidated financial statements include holdings in unquoted securities amounting to AED 913 million (2015: AED 1,023 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on comparable ratios backed by discounted cash flow analysis depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

For investments valued using comparable ratios, share prices of comparable companies represent significant inputs to the valuation model. If the share prices of the comparable companies were 5% higher/lower while all other variables were held constant, then the fair value of the securities would increase/decrease by AED 46 million (2015: AED 51 million).

The impact of the change in fair valuation from previously existing carrying amounts have been recognised as a part of cumulative changes in fair value in equity.

Fair value of financial assets carried at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

	2016		2015	
	Carrying amount AED'000	**Fair value AED'000**	Carrying amount AED'000	Fair value AED'000
Financial assets				
- Other financial assets measured at amortised cost	**747,237**	**749,067**	527,330	527,752
	========	========	========	========

The fair value for other financial assets measured at amortised cost is based on market prices.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value. They are banked into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices, including over-the-counter quoted prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

40 Fair value of financial instruments (continued)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2016				
Other financial assets measured at fair value				
Investment measured at FVTPL				
Quoted equity	**77,510**	**-**	**-**	**77,510**
Investments measured at FVTOCI				
Quoted equity	**110,314**	**-**	**-**	**110,314**
Unquoted equity	**-**	**-**	**913,010**	**913,010**
Total	**187,824**	**-**	**913,010**	**1,100,834**
Other financial liabilities measured at fair value				
Issued bonds measured at FVTPL				
Quoted debt securities	**1,826,638**	**-**	**-**	**1,826,638**
Other assets /liabilities				
Positive fair value of derivatives	**-**	**1,672**	**-**	**1,672**
Negative fair value of derivatives	**-**	**(6,679)**	**-**	**(6,679)**
At 31 December 2015				
Other financial assets measured at fair value				
Investment measured at FVTPL				
Quoted equity	21,500	-	-	21,500
Quoted debt securities	-	68,604	-	68,604
Investments measured at FVTOCI				
Quoted equity	101,800	-	-	101,800
Unquoted equity	-	-	1,022,974	1,022,974
Total	123,300	68,604	1,022,974	1,214,878
Other financial liabilities measured at fair value				
Issued bonds measured at FVTPL				
Quoted debt securities	1,737,498	-	-	1,737,498
Other assets /liabilities				
Positive fair value of derivatives	-	1,945	-	1,945
Negative fair value of derivatives	-	(823)	-	(823)

There were no transfers between Level 1 and Level 2 during the current year.

40 Fair value of financial instruments (continued)

Reconciliation of Level 3 fair value measurements of other financial assets measured at FVTOCI:

	2016	2015
	AED'000	AED'000
Opening balance	**1,022,974**	973,661
Additions	**-**	77,133
Losses recognised in other comprehensive income	**(109,964)**	(27,820)
Closing balance	**913,010**	1,022,974

Unobservable inputs used in measuring fair value

The effect of unobservable input on fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, 10% change in the underlying value of these investments would have the following effects.

	Effect on OCI	
31 December 2016	**Favorable**	**Unfavorable**
	+913	**-913**

	Effect on OCI	
31 December 2015	Favorable	Unfavorable
	+1,023	-1,023

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

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

Financial Instruments not recorded at fair value

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

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

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

40 Fair value of financial instruments (continued)

Fixed rate financial instruments

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

41. Comparative figures

Certain comparative figures have been reclassified where appropriate to conform with the presentation in these consolidated financial statements.

42 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 22 February 2017.