

Bank of Sharjah P.J.S.C.

**Consolidated financial statements
for the year ended 31 December 2015**

Bank of Sharjah P.J.S.C.

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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 2015.

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 2015 amounted to AED 250 million (2014: AED 286 million). The total comprehensive income for the year ended 31 December 2015 amounted to AED 309 million (2014: AED 241 million) after taking into consideration unrealised gain 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 58 million (2014: loss of AED 45 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) | 7. Mr. Abdul Aziz Mubarak Al Hassawi |
| 2. Sheikh Mohammed Bin Saud Al Qassimi | 8. Mr. Saud Al Besharah |
| 3. Sheikh Seif Bin Mohd Bin Butti Al Hamed | 9. Mr. Francois Dauge |
| 4. H.E. Humeid Naser Al Owais | 10. Mr. Varouj Nerguizian |
| 5. Mr. Abdul Rahman Bukhatir | |
| 6. Mr. Abdul Aziz Hassan Al Midfa | |

On behalf of the Board

Mr. Ahmed Abdalla Al Noman
Chairman
Sharjah
30 January 2016

Independent Auditors' Report

The Shareholders
Bank of Sharjah P.J.S.C.

Report on the Consolidated Financial Statements

We have audited the accompanying 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 2015, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- v) as disclosed in notes 9 (c) to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2015;
- 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 2015 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2015; and
- viii) note 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.

Other Matter

The consolidated financial statements for the year ended 31 December 2014 were audited respectively by another auditor who expressed an unqualified audit opinion on the consolidated financial statements for the year ended 31 December 2014 on 14 February 2015.

KPMG Lower Gulf Limited

Date:

Muhammad Tariq

Registered Auditor Number: 793

Place: Dubai, United Arab Emirates

Consolidated statement of financial position
As at 31 December

	Notes	2015 AED'000	2014 AED'000
ASSETS			
Cash and balances with central banks	6	6,436,195	3,707,816
Deposits and balances due from banks	7	1,072,415	2,783,177
Loans and advances, net	8	15,036,621	14,080,102
Other financial assets measured at fair value	9	1,214,878	1,166,631
Other financial assets measured at amortised cost	9	527,330	597,349
Investment properties	10	270,441	336,143
Goodwill and other intangibles	11	234,234	242,018
Other assets	12	2,519,598	1,613,123
Property and equipment	14	275,206	292,341
Non-current assets classified as held for sale	15	-	235,683
Total assets		27,586,918	25,054,383
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	17	19,491,815	17,800,882
Deposits and balances due to banks	18	45,479	405,603
Other liabilities	19	1,689,682	1,677,471
Syndicated loan	20	-	734,600
Issued bonds	21	1,737,498	-
Liabilities directly associated with non-current assets classified as held for sale	15	-	23,168
Total liabilities		22,964,474	20,641,724
Equity			
Capital and reserves			
Share capital	22 (a)	2,100,000	2,100,000
Treasury shares	22 (a)	-	(196,726)
Statutory reserve	22 (b)	1,050,000	1,050,000
Contingency reserve	22 (c)	480,000	450,000
General reserve	22 (d)	100,000	100,000
Changes in fair value reserve		212,432	154,009
Retained earnings		476,485	543,427
Equity attributable to equity holders of the Bank		4,418,917	4,200,710
Non-controlling interests		203,527	211,949
Total equity		4,622,444	4,412,659
Total liabilities and equity		27,586,918	25,054,383

.....
Mr. Ahmed Abdalla Al Noman
Chairman

.....
Mr. Varouj Nerguizian
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	2015 AED'000	2014 AED'000
Interest income	28	1,028,211	984,947
Interest expense	29	(480,120)	(517,236)
Net interest income		548,091	467,711
Net fee and commission income	30	160,113	159,553
Exchange profit		21,473	24,642
Income/(loss) on investments	31	11,530	(15,223)
Net gain on investment properties revaluation	10	4,143	32,465
Other income	32	87,736	114,735
Operating income		833,086	783,883
Net impairment loss on financial assets	33	(297,006)	(238,828)
Net operating income		536,080	545,055
General and administrative expenses	34	(267,559)	(259,494)
Amortisation of intangible assets	11 (b)	(7,784)	(7,784)
Profit before discontinued operations		260,737	277,777
Discontinued operations	15	(3,438)	14,481
Profit before taxes		257,299	292,258
Income tax expense - overseas		(6,998)	(6,339)
Net profit for the year		250,301	285,919
Attributable to:			
Equity holders of the Bank		243,754	280,876
Non-controlling interests		6,547	5,043
Net profit for the year		250,301	285,919
Basic and diluted earnings per share (AED)	23	0.12	0.14

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

**Consolidated statement of other comprehensive income
for the year ended 31 December**

	2015 AED'000	2014 AED'000
Net profit for the year	250,301	285,919
Other comprehensive income items		
<i>Items that will not be reclassified subsequently to consolidated statement of profit or loss:</i>		
Net changes in fair value of financial assets measured at fair value through other comprehensive income	(33,576)	(45,332)
Net changes in fair value of financial liabilities measured at fair value through profit or loss due to credit risk	92,003	-
Other comprehensive income/(loss) for the year	58,427	(45,332)
Total comprehensive income for the year	308,728	240,587
Attributable to:		
Equity holders of the Bank	302,177	235,538
Non-controlling interests	6,551	5,049
Total comprehensive income for the year	308,728	240,587

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

**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	Changes in 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 2014	2,100,000	(327,792)	1,085,357	413,126	92,999	199,347	579,129	4,142,166	210,455	4,352,621
Profit for the year	-	-	-	-	-	-	280,876	280,876	5,043	285,919
Other comprehensive loss	-	-	-	-	-	(45,338)	-	(45,338)	6	(45,332)
Total comprehensive income for the year	-	-	-	-	-	(45,338)	280,876	235,538	5,049	240,587
Share dividends (Note 24)	-	119,197	-	-	-	-	(119,197)	-	-	-
Treasury shares sold during the year	-	11,869	-	-	-	-	-	11,869	-	11,869
Directors' remuneration (Note 24)	-	-	-	-	-	-	(9,968)	(9,968)	(617)	(10,585)
Charity donations (Note 24)	-	-	-	-	-	-	(2,500)	(2,500)	-	(2,500)
Transfer from statutory reserve	-	-	(35,357)	-	-	-	35,357	-	-	-
Transfer to contingency reserve	-	-	-	36,874	-	-	(36,874)	-	-	-
Transfer to general reserve	-	-	-	-	7,001	-	(7,001)	-	-	-
Dividends paid (Note 24)	-	-	-	-	-	-	(176,395)	(176,395)	(2,938)	(179,333)
Balance at 31 December 2014	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
Share dividends (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)	-	-	-
Dividends paid (Note 24)	-	-	-	-	-	-	(71,500)	(71,500)	(1,841)	(73,341)
Resale of investments (Note 15)	-	-	-	-	-	-	-	-	(12,515)	(12,515)
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

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

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	2015 AED'000	2014 AED'000
Cash flows from operating activities		
Profit for the year	250,301	285,919
Adjustments for:		
Depreciation of property and equipment	35,064	19,926
Amortisation of other intangible assets	7,784	7,784
Amortisation of premium on debt instruments	162	583
Gain on sale of property and equipment	(46,189)	(595)
Fair value gain on issued bonds	(511)	-
Fair value loss on interest rate swap	511	-
Gain on sale of investment properties	(5,894)	-
Fair value (profit)/loss on investments measured at FVTPL	(3,873)	32,663
Fair value gain on revaluation of investment properties	(4,143)	(32,465)
Net impairment loss on financial assets	297,006	238,828
Dividends income	(1,835)	(7,451)
Operating profit before changes in operating assets and liabilities	528,383	545,192
Increase in deposits and balances due from banks maturing after three months	(175,031)	(287,000)
Increase in statutory deposits with central banks	(31,016)	(34,700)
Increase in loans and advances	(1,253,525)	(1,184,181)
Increase in other assets	(706,472)	(108,518)
Increase/(decrease) in customers' deposits	1,690,933	(573,184)
Increase in other liabilities	8,312	282,601
Cash generated/ (used in) operating activities	61,584	(1,359,790)
Payment of directors' remuneration and charity donations	(13,087)	(13,085)
Net cash generate from/ (used in) operating activities	48,497	(1,372,875)
Cash flows from investing activities		
Purchase of property and equipment	(37,384)	(34,193)
Proceeds from sale of property and equipment	81,370	2,215
Purchase of investments	(189,058)	(200,035)
Proceeds from sale of investment properties	250,878	-
Additions to investment properties	(190,867)	-
Proceeds from sale of investments	180,966	114,452
Dividends received	1,835	7,451
Net cash generated from/ (used in) investing activities	97,740	(110,110)
Cash flows from financing activities		
Treasury shares sold during the year	-	11,869
Dividends paid	(69,441)	(179,333)
Issued bonds	1,829,498	-
Syndicated loan	(734,600)	-
Net cash generated from/(used in) financing activities	1,025,457	(167,464)
Net increase/ (decrease) in cash and cash equivalents	1,171,694	(1,650,449)
Cash and cash equivalents at the beginning of the year	3,938,641	5,589,090
Cash and cash equivalents at the end of the year (Note 26)	5,110,335	3,938,641

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

Notes to the consolidated financial statements for the year ended 31 December 2015

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
<ul style="list-style-type: none"> Finalised version of IFRS 9 (IFRS 9 <i>Financial Instruments</i> (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model. <p>A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.</p> <p>A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.</p>	1 January 2018

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34. 	1 January 2016
<ul style="list-style-type: none"> Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortisation. 	1 January 2016
<ul style="list-style-type: none"> Amendments to IFRS 11 to clarify accounting for acquisitions of <i>Interests in Joint Operations</i>. 	1 January 2016
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> Amendments to IFRS 10 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities. 	1 January 2016
<ul style="list-style-type: none"> 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.

The application of the finalised version of IFRS 9 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application until the Group performs a detailed review.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****3 Basis of preparation****3.1 Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and applicable requirements of the Laws of 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 2016 as per the transitional provisions contained therein. The Bank is currently in the process of implementing all changes required by the UAE Companies Law of 2015.

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 revalued amounts or 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 arising from other contractual arrangements; and

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****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.

4.3 Due from banks

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

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****4 Summary of significant accounting policies (continued)****4.4 Financial instruments****4.4.1 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.

4.4.2 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.

4.4.3 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):

- 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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

4 Summary of significant accounting policies (continued)

4.4.3 Financial assets (continued)

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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****4 Summary of significant accounting policies (continued)****4.4.3 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.

4.5 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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

4 Summary of significant accounting policies (continued)

4.6 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.

4.7 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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

4 Summary of significant accounting policies (continued)

4.8 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

4.9 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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

4 Summary of significant accounting policies (continued)

4.10 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 2015**

4 Summary of significant accounting policies (continued)

4.10 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.

4.11 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 2015****4 Summary of significant accounting policies (continued)****4.11 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.

4.12 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.

4.13 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.

4.14 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 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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****4 Summary of significant accounting policies (continued)****4.14 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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****4 Summary of significant accounting policies (continued)****4.15 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.

4.16 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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****4 Summary of significant accounting policies (continued)****4.17 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.

4.18 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.

4.19 Employees' end-of-service benefits

The Group provides end of service benefits for its expatriate employees. 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.

4.20 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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****4 Summary of significant accounting policies (continued)****4.20 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.

4.21 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.

4.22 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).

4.23 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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****4 Summary of significant accounting policies (continued)****4.23 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.

4.24 Revenue and expense recognition**4.24.1 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.

4.24.2 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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****4 Summary of significant accounting policies (continued)****4.24 Revenue and expense recognition (continued)****4.24.3 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.

4.25 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.

4.26 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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****4 Summary of significant accounting policies (continued)****4.27 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.

4.28 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.

4.29 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.

4.30 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.

4.31 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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

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 2015**

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.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015

6 Cash and balances with central banks

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

	2015 AED'000	2014 AED'000
Cash on hand	68,370	73,864
Statutory deposits	1,086,835	1,055,819
Current accounts	2,147,281	587,966
Certificates of deposits	3,133,709	1,990,167
	6,436,195	3,707,816

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

	2015 AED'000	2014 AED'000
Banks abroad	1,760,984	1,541,774
Banks in the U.A.E.	4,675,211	2,166,042
	6,436,195	3,707,816

The Group is required to maintain statutory deposits with various central banks 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 2015, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 498 million (31 December 2014: AED 482 million).

7 Deposits and balances due from banks

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

	2015 AED'000	2014 AED'000
Demand	705,511	768,792
Time	366,904	2,014,385
	1,072,415	2,783,177

(b) The above represent deposits and balances due from:

Banks abroad	723,382	653,467
Banks in the U.A.E.	349,033	2,129,710
	1,072,415	2,783,177

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015

8 Loans and advances, net

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

	2015 AED'000	2014 AED'000
Overdrafts	8,916,160	8,639,606
Commercial loans	6,131,020	5,480,731
Bills receivable	789,213	714,902
Other advances	995,513	880,244
	<hr/>	<hr/>
Gross amount of loans and advances	16,831,906	15,715,483
Less: Allowance for impairment	(1,524,442)	(1,347,377)
Less: Interest in suspense	(270,843)	(288,004)
	<hr/>	<hr/>
Net loans and advances	15,036,621	14,080,102
	<hr/> <hr/>	<hr/> <hr/>

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

	2015 AED'000	2014 AED'000
Loans and advances in the U.A.E.	14,222,200	13,275,107
Loans and advances abroad	2,609,706	2,440,376
	<hr/>	<hr/>
	16,831,906	15,715,483
	<hr/> <hr/>	<hr/> <hr/>

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

	2015 AED'000	2014 AED'000
At 1 January	1,347,377	1,011,629
Additions through credit extension premium	1,510	96,264
Additions (Note 33)	386,490	260,726
Write-off	(138,736)	(6,641)
Write-backs	(72,199)	(14,601)
	<hr/>	<hr/>
Balance at the end of the year	1,524,442	1,347,377
	<hr/> <hr/>	<hr/> <hr/>

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

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015

8 Loans and advances, net (continued)

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

	2015 AED'000	2014 AED'000
At 1 January	288,004	210,038
Additions	102,106	89,153
Write-off	(101,982)	(4,063)
Write-backs	(17,285)	(7,124)
Balance at the end of the year	270,843	288,004

At 31 December 2015, the gross amount of loans and advances on which interest is being suspended, amounted to AED 1,452 million (2014: AED 1,140 million). Unrecognised interest income for the year relating to such loans amounted to AED 102 million (2014: AED 89 million).

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

	2015 AED'000	2014 AED'000
Economic sector		
Trading	6,438,192	6,030,111
Services	4,683,930	3,875,448
Manufacturing	2,305,142	2,086,614
Construction	1,262,612	1,271,989
Public utilities	-	712,241
Personal loans for commercial purposes	502,340	260,959
Personal loans for individual purposes	465,339	420,892
Mining and quarrying	457,211	514,401
Transport and communication	357,655	227,896
Financial institutions	189,053	221,568
Government	109,282	20,643
Agriculture	22,150	30,224
Other	39,000	42,497
	16,831,906	15,715,483
Less: Allowance for impairment	(1,524,442)	(1,347,377)
Less: Interest in suspense	(270,843)	(288,004)
	15,036,621	14,080,102

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

8 Loans and advances, net (continued)

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

	2015	2014
	AED'000	AED'000
Economic sector		
Trading	1,177,345	844,030
Manufacturing	128,317	75,432
Transport and communication	80,382	71,549
Services	30,435	33,748
Personal loans for individual purposes	18,601	5,312
Personal loans for commercial purposes	14,583	13,826
Construction	1,764	95,718
Other	241	228
	1,451,668	1,139,843

9 Other financial assets

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

	2015	2014
	AED'000	AED'000
Other financial assets measured at fair value		
(i) Investments measured at FVTPL		
Quoted equity	21,500	19,979
Quoted debt securities	68,604	65,422
	90,104	85,401
(ii) Investments measured at FVTOCI		
Quoted equity	101,800	107,569
Unquoted equity	1,022,974	973,661
	1,124,774	1,081,230
Total other financial assets measured at fair value	1,214,878	1,166,631
Other financial assets measured at amortised cost		
Debt securities	527,330	597,349
Total other financial assets	1,742,208	1,763,980

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).

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

9 Other financial assets (continued)

(b) The composition of the investment portfolio by geography is as follows:

	2015	2014
	AED'000	AED'000
United Arab Emirates	223,210	231,973
G.C.C. countries (other than U.A.E.)	5,754	5,868
Middle East (other than G.C.C. countries)	1,513,132	1,526,015
Europe	112	124
	1,742,208	1,763,980

(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 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 2015, dividends received from financial assets measured at FVTOCI amounting to AED 2 million (2014: AED 7 million) have been recognised as investment income in the consolidated statement of profit or loss.

10 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 2014	70,828	232,850	303,678
Increase in fair value during the year	2,971	29,494	32,465
Fair value at 31 December 2014	73,799	262,344	336,143
Increase in fair value during the year	2,215	1,928	4,143
Transfer to property and equipment (Note 14)	-	(15,726)	(15,726)
Additions/ disposals, net during the year	(39,637)	(14,482)	(54,119)
Fair value at 31 December 2015	36,377	234,064	270,441

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

10 Investment properties (continued)

The fair value of the Group's investment properties is estimated periodically 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 2015, 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 property being valued.

The geographic analysis of the investment properties of the Group is as follows:

	2015	2014
	AED'000	AED'000
Commercial and residential units in the U.A.E.	234,064	262,344
Plots of lands in the U.A.E.	36,377	73,799
Total	270,441	336,143

11 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.

	2015	2014
	AED'000	AED'000
Goodwill	184,733	184,733
Other intangibles		
Banking license	18,365	18,365
Legal corporate setup in Lebanon	17,181	21,475
Customer base	12,489	15,611
Branch network	1,466	1,834
	49,501	57,285
Total	234,234	242,018

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.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015

11 Goodwill and other intangibles (continued)

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

		Legal			
	Banking	corporate	Customer	Branch	Total
Other intangibles	license	setup in	base	network	
	AED'000	Lebanon	AED'000	AED'000	AED'000
Balance as at 1 January 2014	18,365	25,769	18,733	2,202	65,069
Amortisation in 2014	-	(4,294)	(3,122)	(368)	(7,784)
Balance as at 31 December 2014	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
	=====	=====	=====	=====	=====

12 Other assets

	2015	2014
	AED'000	AED'000
Acceptances – contra (Note 19)	1,441,148	1,455,347
Assets acquired in settlement of debt	798,212	16,390
Receivable from sale of investments	203,330	9,088
Clearing receivables and accrued income	-	98,044
Interest receivable	20,504	5,298
Prepayments	9,600	9,608
Positive fair value of derivatives (Note 13)	1,945	44
Other	44,859	19,304
	2,519,598	1,613,123
	=====	=====

For 2014, clearing receivables and accrued income includes an amount of AED 75.4 million of accrued income from success fee as the Bank successfully closed a corporate finance transaction for one of the Bank's major borrowers (Note 32).

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 13 below for further details about the nature and type of derivative contracts utilised by the Group, together with the notional amounts and maturities.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****13 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. 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.

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.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015

13 Derivative financial instruments (continued)

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.

	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
2015						
Interest rate swap	-	(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
	=====	=====	=====	=====	=====	=====
2014						
Currency swaps	-	-	220,380	220,380	-	-
Forward foreign exchange contracts	44	3	84,900	69,650	15,250	-
Total	44	3	305,280	290,030	15,250	-
	=====	=====	=====	=====	=====	=====

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.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015

14 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 2014	246,380	98,286	72,511	4,907	422,084
Additions	-	22,668	10,437	1,088	34,193
Eliminated on disposals	(535)	(9,035)	(3,609)	(869)	(14,048)
Transfers	-	(15,033)	15,033	-	-
At 31 December 2014	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 10)	15,726	-	-	-	15,726
Eliminated on disposals	(38,529)	(2,473)	(11,520)	(877)	(53,399)
At 31 December 2015	238,392	101,713	96,332	5,503	441,940
Accumulated depreciation					
At 1 January 2014	14,110	76,879	47,936	3,465	142,390
Charge for the year	2,363	10,141	6,697	725	19,926
Eliminated on disposals	-	(7,968)	(3,591)	(869)	(12,428)
At 31 December 2014	16,473	79,052	51,042	3,321	149,888
Charge for the year	16,458	9,015	8,368	1,223	35,064
Eliminated on disposals	(3,776)	(2,250)	(11,463)	(729)	(18,218)
At 31 December 2015	29,155	85,817	47,947	3,815	166,734
Net book value:					
At 31 December 2015	209,237	15,896	48,385	1,688	275,206
At 31 December 2014	229,372	17,834	43,330	1,805	292,341

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

15 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.

16 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
	2015	2014			
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%	-	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	
	2015	2014	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Emirates Lebanon Bank S.A.L.	20 %	20%	6,547 =====	5,043 =====	203,527 =====	211,949 =====

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

16 Subsidiaries (continued)

- 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 2015 and 2014:

	2015 AED'000	2014 AED'000
<i>Statement of financial position</i>		
Total assets	5,549,600	5,506,796
Total liabilities	4,531,766	4,509,450
Equity	1,017,834	997,346
Dividends paid to non-controlling interests	1,837	2,938
<i>Statement of comprehensive income</i>		
Interest income	251,050	237,282
Profit for the year	32,734	25,212
Total comprehensive income	32,756	25,244
<i>Statement of cash flows</i>		
Net cash flows (used in)/generated from operating activities	(156,975)	47,079
Net cash flows generated from/(used in) investing activities	53,464	(62,683)
Net cash flows used in financing activities	(9,183)	(14,452)
Net cash flows used during the year	(112,694)	(30,056)

17 Customers' deposits

The analysis of customers' deposits is as follows:

	2015 AED'000	2014 AED'000
Current and other accounts	4,008,397	4,242,438
Saving accounts	1,634,738	1,586,748
Time deposits	13,848,680	11,971,696
	19,491,815	17,800,882

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

18 Deposits and balances due to banks

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

	2015 AED'000	2014 AED'000
Demand	839	42,584
Time	44,640	363,019
	45,479	405,603

Due to banks represent due to:

	2015 AED'000	2014 AED'000
Banks in the U.A.E.	-	110,848
Banks abroad	45,479	294,755
	45,479	405,603

19 Other liabilities

	2015 AED'000	2014 AED'000
Acceptances – contra (Note 12)	1,441,148	1,455,347
Provision for employees' end of service benefits	39,374	33,025
Interest payable	84,858	75,791
Unearned income	22,362	21,017
Managers' cheques	24,174	17,598
Accrued expenses and others	76,943	74,690
Negative fair value of derivatives (Note 13)	823	3
	1,689,682	1,677,471

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

	2015 AED'000	2014 AED'000
At 1 January	33,025	53,845
Charged during the year	7,203	9,905
Payments during the year	(854)	(30,725)
At 31 December	39,374	33,025

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

20 Syndicated loan

On 8 July 2013, the Bank signed a USD 200 million (AED 735 million) syndicated term loan facility. The purpose of the facility is to finance general corporate activities. The facility has a tenor of two years and is payable at maturity. The facility carries an interest rate of LIBOR plus a margin of 125 basis points which is payable on a quarterly basis. The drawdown on the facility was on 18 August 2013. The syndicated loan was fully settled on 22 June 2015 prior to maturity date.

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 2015
	AED’000
Fair value of issued bond	1,737,498
Changes in fair value of issued bond not attributable to changes in market conditions	(92,003)
Difference between carrying amount and amount contractually required to be paid at maturity	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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

22 Issued and paid up capital and reserves

(a) Issued and paid up capital and treasury shares

	2015		2014	
	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
Shares held in treasury	-	-	(99,526,834)	(196,726)
	2,100,000,000	2,100,000	2,000,473,166	1,903,274
	=====	=====	=====	=====

During 2015, 99.5 million shares were released from the treasury shares as share distribution and as such the number of shares held as treasury shares as at 31 December 2015 is nil (31 December 2014: 99.5 million shares with market value of those shares amounting to AED 194 million).

During 2014, 60 million shares were released from the treasury shares as share dividend and in December 2014, the Bank sold out 5,473,166 shares of the treasury shares. As at 31 December 2014, the treasury shares balance stood at 99,526,834 shares (31 December 2013: 165 million shares) with a carrying value of AED 197 million (31 December 2013: AED 328 million). As such, the number of shares outstanding as at 31 December 2014 is 2 billion shares (31 December 2013: 1.935 billion shares). The market value of the treasury shares as at 31 December 2014 is AED 194 million (31 December 2013: AED 295 million).

(b) Statutory reserve

In accordance with Article 239 of the UAE companies' law of 2015, 10% of the profit for the year is to be transferred to statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the U.A.E. this level is 50% of the issued and paid up share capital).

(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 share capital.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

22 Issued and paid up capital and reserves (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:

	2015	2014
Basic and diluted earnings per share		
Profit attributable to owners of the Bank for the year (AED'000)	243,754	280,876
Profit available to the owners of the Bank	243,754	280,876
<i>Weighted average number of ordinary shares:</i>		
Ordinary shares at the beginning of the year	2,000,473	1,935,000
Effect of scrip dividend issued during the year	99,527	65,473
Weighted average number of shares outstanding during the year (in thousands shares)	2,083,412	1,995,457
Basic earnings per share (AED)	0.12	0.14

The weighted average number of shares outstanding during 2015 and 2014 has been revised to include the impact of releasing 99.5 million shares and 60 million shares respectively from the treasury shares as share dividend declared during the current year.

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 Dividends and Directors' remuneration

Dividends

At the Annual General Meeting of the shareholders held on 21 March 2015, the shareholders approved a 3.4% cash dividend amounting to AED 71.5 million and 4.98% treasury shares distribution (99.5 million shares) amounting to AED 197 million (2014: 9% cash dividend amounting to AED 176.4 million and 2.86% treasury shares distribution (60 million shares) amounting to AED 119 million). The shareholders also approved Directors' remuneration of AED 7.5 million (2014: AED 7.5 million) and charitable donations of AED 2.5 million (2014: AED 2.5 million). In addition, the shareholders also approved the appropriation of AED 30 million to contingency reserves.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

24 Dividends and Directors' remuneration (continued)

Dividends (continued)

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). In addition to the above, an amount of AED 3.1 million was paid as Directors' remuneration (2014: AED 3.1 million).

Treasury shares

As mentioned earlier, during the period, 99.5 million shares were released from the treasury shares as share distribution and as such the number of shares held as treasury shares as at 31 December 2015 is nil (31 December 2014: 99.5 million shares with market value of those shares amounting to AED 194 million).

25 Commitments and contingent liabilities

	2015	2014
	AED'000	AED'000
Financial guarantees for loans	706,794	1,060,534
Other guarantees	2,247,582	1,868,815
Letters of credit	1,307,698	1,211,836
Capital commitments	44,929	44,929
	4,307,003	4,186,114
Irrevocable commitments to extend credit	1,552,812	1,535,327
	5,859,815	5,721,441

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.

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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

26 Cash and cash equivalents

	2015 AED'000	2014 AED'000
Cash and balances with central banks (Note 6)	6,436,195	3,707,816
Deposits and balances due from banks (Note 7)	1,072,415	2,783,177
Deposits and balances due to banks (Note 18)	(45,479)	(405,603)
	7,463,131	6,085,390
Less: Deposits and balances due from banks - original maturity more than three months	(1,265,961)	(1,090,930)
Less: Statutory deposits with central banks (Note 6)	(1,086,835)	(1,055,819)
	5,110,335	3,938,641
	=====	=====

27 Fiduciary assets

The Group holds investments amounting to AED 0.8 billion (31 December 2014: AED 2.4 billion) which are held on behalf of customers and not treated as assets in the consolidated statement of financial position.

28 Interest income

	2015 AED'000	2014 AED'000
Loans and advances	907,032	886,364
Certificates of deposit, treasury bills with central banks and debt instruments	99,623	89,893
Placements with banks	8,182	8,690
Interest rate swap	13,374	-
	1,028,211	984,947
	=====	=====

29 Interest expense

	2015 AED'000	2014 AED'000
Customers' deposits	426,711	488,633
Banks' deposits	12,030	9,677
Syndicated loan	-	12,314
Interest on cash contribution towards capital due to non-controlling interests	6,611	6,612
Issued bonds	34,768	-
	480,120	517,236
	=====	=====

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015

30 Net fee and commission income

	2015 AED'000	2014 AED'000
Corporate banking credit related fees	59,765	58,940
Trade finance activities	62,554	59,306
Letters of guarantee	33,863	36,852
Other	3,931	4,455
	<u>160,113</u>	<u>159,553</u>
	=====	=====

31 Income/(loss) on investments

	2015 AED'000	2014 AED'000
Dividends	1,835	7,451
Revaluation gain/(loss) on investments measured at FVTPL	3,873	(32,663)
Other investment income	5,822	9,989
	<u>11,530</u>	<u>(15,223)</u>
	=====	=====

32 Other income

	2015 AED'000	2014 AED'000
Success fee*	-	75,370
Income/(loss) on sale of fixed assets	46,189	(595)
Other	41,547	39,960
	<u>87,736</u>	<u>114,735</u>
	=====	=====

* Success fee is the compensation given to the Bank for successfully arranging project finance for one of the Bank's major borrowers (Note 12).

33 Net impairment loss on financial assets

	2015 AED'000	2014 AED'000
Collective impairment of loans and advances	67,500	215,250
Specific provision of loans and advances	318,990	45,303
	<u>386,490</u>	<u>260,553</u>
Total charge for the year (Note 8)	(89,484)	(21,725)
Write backs	<u>297,006</u>	<u>238,828</u>
	=====	=====

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

34 General and administrative expenses

	2015 AED'000	2014 AED'000
Salaries and employees related expenses	159,640	164,511
Depreciation on property and equipment (Note 14)	35,064	19,926
Other *	72,855	75,057
	267,559	259,494

*Other includes an amount of AED 10.46 million representing social contributions made during the year ended 31 December 2015.

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 between 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:

	2015 AED'000	2014 AED'000
Loans and advances	2,162,402	2,497,043
Letters of credit, guarantee and acceptances	389,072	648,160
	2,551,474	3,145,203
Collateral deposits	169,941	183,380
Net exposure	2,381,533	2,961,823
Other deposits	120,235	194,400

As at 31 December 2015, entities related to one of the directors accounted for 74% (31 December 2014: 78%) of the total aforementioned net exposure.

	2015 AED'000	2014 AED'000
Interest income	132,337	153,908
Interest expense	9,558	63,283

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

35 Related party transactions (continued)

Compensation of Directors and key management personnel:

	2015	2014
	AED'000	AED'000
Short term benefits	18,721	21,399
Directors fees	8,117	8,117
End of service benefits	3,028	1,104
	<hr/>	<hr/>
Total compensation as at 31 December	29,866	30,620
	<hr/>	<hr/>

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. In contrast, the predecessor Standard (IAS 14: *Segment Reporting*) required an entity to identify two segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. However, the business segments reported earlier as per the requirements of IAS 14 *Segment Reporting* are also used by the General Manager to allocate resources to the segments and to assess their 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 2015

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
Revenue from external customers				
- 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	52,298	35,438	-	87,736
Operating income	771,839	61,247	-	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)
Profit for the year after taxes	269,428	22,935	(42,062)	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

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

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 2014:

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
Revenue from external customers				
- Net interest income	444,040	23,671	-	467,711
- Net fee and commission income	159,553	-	-	159,553
- Exchange profit	24,642	-	-	24,642
- Investment loss	-	(15,223)	-	(15,223)
- Revaluation gain on investment properties	-	32,465	-	32,465
- Other income	91,215	23,520	-	114,735
Operating income	719,450	64,433	-	783,883
Other material non-cash items				
- Net impairment charge on financial assets	(238,828)	-	-	(238,828)
- Depreciation of property and equipment	-	-	(19,926)	(19,926)
- General and administrative expenses	(203,613)	(35,955)	-	(239,568)
- Amortization of intangible assets	(7,784)	-	-	(7,784)
- Income tax expenses – overseas	-	-	(6,339)	(6,339)
- Discontinued operations	-	14,481	-	14,481
Profit for the year after taxes	269,225	42,959	(26,265)	285,919
Segment assets	21,713,976	2,899,378	441,029	25,054,383
Segment liabilities	19,685,001	734,600	222,123	20,641,724

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2014: 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.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015

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 revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Country of domicile AED'000	Foreign AED'000	Total AED'000
2015			
Operating income (from external customers)	732,320	100,766	833,086
Non-current assets	1,566,425	291,905	1,858,330
2014			
Operating income (from external customers)	684,034	99,849	783,883
Non-current assets	731,914	296,364	1,028,278

36.4 Information about major customers

In 2015, two customers accounted for more than 10% of the Group's net revenue from external customers (2014: one customer accounted for more than 10% of the Group's net revenue from external customers).

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 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	-	-	1,711,779	1,711,779
Total	90,104	1,124,774	24,784,340	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

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

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 2014:

	FVTPL	FVTOCI	Amortised	Total
	AED'000	AED'000	cost	AED'000
			AED'000	
Financial assets:				
Cash and balances with central banks	-	-	3,707,816	3,707,816
Deposits and balances due from banks	-	-	2,783,177	2,783,177
Loans and advances, net	-	-	14,080,102	14,080,102
Other financial assets measured at fair value	85,401	1,081,230	-	1,166,631
Other financial assets measured at amortised cost	-	-	597,349	597,349
Other assets	44	-	1,587,081	1,587,125
Total	85,445	1,081,230	22,755,525	23,922,200
	=====	=====	=====	=====
Financial liabilities:				
Customers' deposits	-	-	17,800,882	17,800,882
Deposits and balances due to banks	-	-	405,603	405,603
Other liabilities	3	-	1,623,426	1,623,429
Syndicated loan	-	-	734,600	734,600
Total	3	-	20,564,511	20,564,514
	=====	=====	=====	=====

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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****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 credit 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. As required by Central Bank of the U.A.E. guidelines, the Group takes the higher of the loan loss provisions required under IAS 39, and Central Bank regulations.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

38 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk

	Loans and advances to customers	
	2015	2014
	AED'000	AED'000
Carrying amount		
<i>Individually impaired</i>		
Grade (G-I) - gross amount	1,451,668	1,139,843
<i>Neither past due nor impaired</i>		
Grade A	93,434	872,238
Grade B	8,934,128	7,992,057
Grade C	2,900,980	4,091,371
Grade D	2,148,505	1,147,688
Grade E	654,853	68,202
Grade F	122,144	-
	16,305,712	15,311,399
Past due but not impaired	526,194	404,084
Total carrying amount	16,831,906	15,715,483
Allowance for impairment (including interest in suspense)	(1,795,285)	(1,635,381)
Net carrying amount	15,036,621	14,080,102

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.

	<i>Neither past due nor impaired</i>			Past due or individually impaired	Total
	High grade	Standard grade	Sub-standard grade		
	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
Due from Banks and financial institutions	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

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

38 Risk management (continued)

Credit risk management (continued)

	<i>Neither past due nor impaired</i>			Past due or individually impaired 2014 AED'000	Total 2014 AED'000
	High grade 2014 AED'000	Standard grade 2014 AED'000	Sub-standard grade 2014 AED'000		
Balances with Central Banks	3,633,952	-	-	-	3,633,952
Due from Banks and financial institutions	2,303,334	479,843	-	-	2,783,177
Investments in debt securities	662,771	-	-	-	662,771
Loans and advances, (gross)	872,238	13,231,116	68,202	1,543,927	15,715,483
Other assets	-	1,613,123	-	-	1,613,123

The risk classification of loans and advances

	2015 AED'000	2014 AED'000
Performing loans	13,166,537	12,751,544
Other loans exceptionally monitored	2,213,701	1,824,096
Non-performing loans	1,451,668	1,139,843
	16,831,906	15,715,483
Less: Allowance for impairment	(1,524,442)	(1,347,377)
Less: Interest in suspense	(270,843)	(288,004)
	15,036,621	14,080,102

As at 31 December 2015, loans and advances measured at amortised cost include AED 526 million (2014: AED 404 million) of loans and advances that are past due but not impaired. Past due but not impaired includes loans and advances that are either fully secured or there is no concern over the credit worthiness of the counterparty as per management's judgment. Out of the balance of AED 526 million (2014: AED 404 million) of past due loans AED 30 million (2014: AED 59 million) was the instalment amounts of principle or interest that is past due.

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.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015

38 Risk management (continued)

Credit risk management (continued)

	Notes	2015 AED'000	2014 AED'000
Balances with Central Banks	6	6,367,825	3,633,952
Due from banks and financial institutions	7	1,072,415	2,783,177
Loans and advances , net	8	15,036,621	14,080,105
Investments in debt securities	9	595,934	662,771
Other assets <i>(excluding prepayments & assets acquired in settlement of debts)</i>		1,741,364	1,587,125
Total		24,814,859	22,747,130
Letters of credit	25	1,307,698	1,211,836
Guarantees	25	2,954,376	2,929,349
Undrawn loan commitments	25	1,552,812	1,535,327
Total		5,814,886	5,676,512
Total credit risk exposure		30,629,745	28,423,642

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 2015 AED'000	31 to 89 days 2015 AED'000	More than 90 days 2015 AED'000	Total 2015 AED'000
Loans and advances	356,143	46,236	123,815	526,194
	Less than 30 days 2014 AED'000	31 to 89 days 2014 AED'000	More than 90 days 2014 AED'000	Total 2014 AED'000
Loans and advances	99,128	23,827	281,130	404,085

Collaterals held against loans and advances

The fair value of the collateral that the Group held at 31 December 2015 for past due but not impaired loans and advances to customers covers 127% (2014: 129%) of the outstanding balance.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015**

38 Risk management (continued)

Credit risk management (continued)

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

	2015	2014
	AED'000	AED'000
Loans and advances	1,109,691	473,939

Impaired loans and securities

Impaired loans and securities are loans and securities 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 12.2 billion (2014: AED 9.1 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.

Liquidity risk management

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

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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2015****38 Risk management (continued)****Liquidity risk management (continued)**

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.

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

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 2015 (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)	-

**Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)**

38 Risk management (continued)

Liquidity risk management (continued)

The maturity profile of the assets and liabilities at 31 December 2014 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	2,596,399	-	1,090,930	20,487	3,707,816
Deposits and balances due from banks	2,691,059	92,118	-	-	2,783,177
Loans and advances, net	8,830,753	673,897	4,571,305	4,147	14,080,102
Other financial assets measured at fair value	19,979	65,422	-	1,081,230	1,166,631
Other financial assets measured at amortised cost	62,455	98,336	426,039	10,519	597,349
Investment properties	-	-	-	336,143	336,143
Goodwill and other intangibles	-	-	-	242,018	242,018
Other assets	981,884	813,987	36,545	16,390	1,848,806
Property and equipment	-	-	-	292,341	292,341
Total assets	15,182,529	1,743,760	6,124,819	2,003,275	25,054,383
Liabilities and equity					
Customers' deposits	11,371,145	5,000,449	106,627	1,322,661	17,800,882
Deposits and balances due to banks	35,279	370,324	-	-	405,603
Other liabilities	814,449	627,911	42,153	216,126	1,700,639
Syndicated loan	-	734,600	-	-	734,600
Equity	-	-	-	4,412,659	4,412,659
Total liabilities and equity	12,220,873	6,733,284	148,780	5,951,446	25,054,383
Net liquidity gap	2,961,656	(4,989,524)	5,976,039	(3,948,171)	-

**Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)**

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:

Market indices	31 December 2015		31 December 2014	
	Change in equity price %	Effect on income AED'000	Change in equity price %	Effect on income AED'000
Global stock markets	+1%	1,196	+1%	854

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 2015 (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, net	-	-	-	-	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 2015 (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 2014 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	1.05%	1,853,341	-	694,245	1,160,230	3,707,816
Deposits and balances due from banks	0.25%	1,415,187	-	-	1,367,990	2,783,177
Loans and advances, net	6.43%	13,858,050	122,388	91,770	7,894	14,080,102
Other financial assets - Equity instruments	-	-	-	-	1,166,631	1,166,631
Other financial assets - Debt securities	6.17%	77,074	87,450	423,868	8,957	597,349
Investment properties	-	-	-	-	336,143	336,143
Goodwill and other intangibles	-	-	-	-	242,018	242,018
Other assets	-	-	-	-	1,848,806	1,848,806
Property and equipment	-	-	-	-	292,341	292,341
Total assets		17,203,652	209,838	1,209,883	6,431,010	25,054,383
		=====	=====	=====	=====	=====
Liabilities and equity						
Customers' deposits	2.17%	9,827,077	4,335,255	11,019	3,627,531	17,800,882
Deposits and balances due to banks	1.13%	25,561	374,646	-	5,396	405,603
Other liabilities	-	-	-	-	1,700,639	1,700,639
Syndicated loan	1.48%	734,600	-	-	-	734,600
Equity	-	-	-	-	4,412,659	4,412,659
Total liabilities and equity		10,587,238	4,709,901	11,019	9,746,225	25,054,383
		=====	=====	=====	=====	=====
On statement of financial position gap		6,616,414	(4,500,063)	1,198,864	(3,315,215)	-
Cumulative interest rate sensitivity gap		6,616,414	2,116,351	3,315,215	-	-
		=====	=====	=====	=====	=====

**Notes to the consolidated financial statements
for the year ended 31 December 2015 (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 2015, 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 2015 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.

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)

2014			
Currency	Increase in basis	Sensitivity of interest income	Sensitivity of equity
AED	+25	10,813	10,813
USD	+25	(3,749)	(3,749)
Others	+25	(392)	(392)

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 2015, 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)**

38 Risk management (continued)

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

ii) Currency risk (continued)

	2015 AED'000 equivalent long (short)	2014 AED'000 equivalent long (short)
Euro	167	369

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 2015	Change in currency rate in %	Change on net profit	Change on Equity
EUR	+5%	8	8

(AED'000)			
Currency exposure as at 31 December 2014	Change in currency rate in %	Change on net profit	Change on Equity
EUR	+5%	18	18

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:

Market indices	31 December 2015		31 December 2014	
	Change in equity price %	Effect on equity AED'000	Change in equity price %	Effect on equity AED'000
Global stock markets	1+%	1,419	+1%	1,081

**Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)****38 Risk management (continued)**

iii) Equity price risk (continued)

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.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)**

39 Capital adequacy and capital management (continued)

Capital management process (continued)

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

	Basel II	
	2015	2014
	AED'000	AED'000
Tier 1 capital		
Share capital	2,100,000	2,100,000
Shares held in treasury	-	(196,726)
Statutory reserve	1,050,000	1,050,000
Contingency and general reserves	580,000	550,000
Retained earnings	476,485	543,427
Non-controlling interest in equity of subsidiaries	203,527	211,949
Goodwill and other intangibles	(234,234)	(242,018)
	4,175,778	4,016,632
Tier 2 capital		
Collective impairment allowance on loans and advances	246,831	242,459
Cumulative change in fair value	95,594	69,304
	342,425	311,763
Total regulatory capital	4,518,203	4,328,395
Risk-weighted assets:		
Credit risk	19,746,453	17,935,851
Market risk	131,933	106,957
Operational risk	1,502,954	1,403,369
Total risk-weighted assets	21,381,340	19,446,177
Capital adequacy ratio	21.13%	22.26%

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 2015, 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)**

40 Fair value of financial instruments (continued)

Unquoted investments held at fair value through other comprehensive income

The consolidated financial statements include holdings in unquoted securities amounting to AED 1,021 million (2014: AED 974 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 37 million (2014: AED 36 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.

	2015		2014	
	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	527,330	527,752	597,349	604,283
	=====	=====	=====	=====

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 subsequent to initial recognition 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 2015 (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 2015				
<i>Other financial assets measured at fair value</i>				
Investment measured at FVTPL				
Quoted equity	21,500	-	-	21,500
Quoted debt securities	-	68,604	-	68,604
<i>Investments measured at FVTOCI</i>				
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
<i>Other financial liabilities measured at fair value</i>				
Issued bonds measured at FVTPL				
Quoted debt securities	1,737,498	-	-	1,737,498
<i>Other assets /liabilities</i>				
Positive fair value of derivatives	-	1,945	-	1,945
Negative fair value of derivatives	-	(823)	-	(823)
At 31 December 2014				
<i>Other financial assets measured at fair value</i>				
Investment measured at FVTPL				
Quoted equity	19,979	-	-	19,979
Quoted debt securities	-	65,422	-	65,422
<i>Investments measured at FVTOCI</i>				
Quoted equity	107,569	-	-	107,569
Unquoted equity	-	-	973,661	973,661
Total	127,548	65,422	973,661	1,166,631
<i>Other assets /liabilities</i>				
Positive fair value of derivatives	-	44	-	44
Negative fair value of derivatives	-	(3)	-	(3)

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

**Notes to the consolidated financial statements
for the year ended 31 December 2015 (continued)**

40 Fair value of financial instruments (continued)

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

	2015 AED'000	2014 AED'000
Opening balance	973,661	976,761
Additions	77,133	-
Losses recognised in other comprehensive income	(27,820)	(3,100)
Closing balance	<u>1,022,974</u>	<u>973,661</u>

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.

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 30 January 2016.